



Annual Report 2007



S V E R I G E S R I K S B A N K

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■ Introduction

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 goal of maintaining price stability. The Bank has also been assigned to promote a safe and efficient payment system.

The Riksbank has more than 360 employees and is governed by an Executive Board consisting of the Governor, Stefan Ingves, and five deputy governors. Members of the Executive Board are appointed by the General Council of the Riksbank for a term of office of six years.

THE YEAR IN BRIEF

- Inflation, measured as a change in the consumer price index (CPI) and underlying inflation (CPIX) averaged 2.2 per cent and 1.2 per cent, respectively, during the year. Economic growth in Sweden amounted to 2.6 per cent, according to the Riksbank's most recent assessment.
- The stability of the financial system was sound, although the risks for banks increased during the second half of the year since the financial markets were characterised by turmoil.
- During the year, the Riksbank's Executive Board decided to raise the repo rate by a total of one percentage point, from 3.0 to 4.0 per cent.
- During the year, the Riksbank published three Monetary Policy Reports, one Monetary Policy Update and two Financial Stability reports.
- The Riksbank reported a profit of SEK 4.1 billion.
- On 25 April, the Riksbank decided to appoint Lars E.O. Svensson and Barbro Wickman-Parak as Deputy Governors of the Bank.

THE YEAR IN FIGURES

| Key data | 2007 | 2006 | 2005 |
|--|------|------|------|
| <i>At year-end</i> | | | |
| Result for the year (SEK billion) | 4.1 | 7.9 | 3.3 |
| Gold and foreign exchange reserve (SEK billion) | 185 | 189 | 195 |
| Number of employees (full-time equivalent) | 364 | 376 | 410 |
| <hr/> | | | |
| Repo rate (per cent) | 4.00 | 3.00 | 1.50 |
| Short-term interest rate (3 month T-bills, per cent) | 4.18 | 3.10 | 1.69 |
| Long-term interest rate (10 year government bonds, per cent) | 4.74 | 3.81 | 3.34 |
| <hr/> | | | |
| <i>Annual average</i> | | | |
| GDP (percentage change) | 2.6 | 4.1 | 3.3 |
| Unemployment (percentage) | 4.6 | 5.3 | 6.0 |
| CPI inflation, (percentage change) | 2.2 | 1.4 | 0.5 |
| Underlying inflation, CPIX (percentage change) | 1.2 | 1.2 | 0.8 |



■ Statement by the Governor

2007 was an eventful year. We made every effort to live up to the vision we established in 2006 to be among the best in terms of quality and efficiency in order to maintain a high degree of confidence in all our operations.

The Riksbank covers a number of different operations and, in recent years, we have worked to develop quantifiable objectives that enable us to evaluate our efforts in a more satisfactory manner. During 2007, we largely achieved the targets we have established. Inflation in terms of the CPI and inflation expectations was close to the 2 per cent target. Financial stability was sound, although the risks for banks increased during the second half of the year, when the financial markets were characterised by considerable turmoil. The payment system has functioned well and our financial assets have provided a good return. Cash management has also functioned well. The profit reported amounted to SEK 4.1 billion.

We are now trying to pursue our vision in all areas of operations. We have deliberately chosen not to specify the institutions with which we compare ourselves when we claim that we are among the best. This is because we want to compare our wide range of operations with those of other central banks, and also with various types of public authorities, organisations and companies.

The past year our main focus has been on improving openness and communication. We want to ensure that as wide a group as possible understands what we are doing. As a result, for example, we have started to present a repo rate forecast for the next three years, in comparison with our previous practice of relying on forecasts for the repo rate from other sources, or merely assuming that the repo rate would remain unchanged. The aim is to make it easier to monitor and evaluate monetary policy. In addition, in September we decided to present an interest rate forecast after every monetary policy meeting, not just when we present a Monetary Policy Report. We also decided to publish certain key data in a brief report on such occasions, to hold a press conference after each monetary policy meeting, and to publish minutes that included names.

But the year was also characterised by unrest in the financial markets. This turbulence had its origins in the US mortgage market, and spread surprisingly quickly to the international markets, including the market for short-term borrowing between banks. As a result, financing became more expensive for the Swedish banks, although the Swedish financial system continued to be fundamentally stable.

Another aspect of our vision is that we should do what we are best suited for and carry out our tasks as efficiently as possible. During the year, we reached agreement with Statistics Sweden under which the agency is to be responsible for the production and publication of balance of payments statistics. Statistics Sweden has better prerequisites for these tasks. But the Riksbank continues to be responsible for the quality and content of these statistics.

We also restructured our operations in order to improve our efficiency. Cash management was transferred from the Market Operations Department to the Administration

Department, for example. All operations concerning asset management – back, middle and front office are centred on Market Operations. As a result, the name of this department was changed to the Asset Management Department, as from 2008. In connection with this restructuring, implementation of monetary policy was transferred to the Monetary Policy Department on which all monetary policy operations are now centred.

It seems that we have taken a further step during 2007 in our aim to be a good workplace with a good working climate. During the autumn of 2007, we again carried out an employee survey that indicated clear improvements in the work organisation and organisation climate areas. Employees felt that they are working for clearer objectives and that there is better cooperation than in the past. However, we must improve our monitoring of the objectives we establish for our operations.

I look forward to yet another year, working together with all employees at the Riksbank.



Stefan Ingves

■ The Riksbank's role and tasks

The Riksbank is Sweden's central bank and a public authority that reports to the Riksdag, the Swedish 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

In accordance with the Sveriges Riksbank Act, the Riksbank shall maintain price stability, that is, ensure that inflation is low and stable. This provides good prerequisites for favourable and sustainable growth.

The Riksbank has defined its inflation target as 2 per cent, as measured by the consumer price index (CPI), with a tolerance interval of ± 1 percentage point to make it clear that it is not always possible to meet the inflation target precisely. At the same time, the Riksbank cannot permit excessive deviations if this target is to continue to be credible. If inflation deviates from the target, it should normally be brought back on target within two years. Sometimes, however, there may be good reason for permitting readjustment

over a longer period, since otherwise this might have an undesirable impact on employment and growth.

The Riksbank uses its policy rate – the “repo rate” – to control inflation. The repo rate determines what the banks have to pay when they borrow from the Riksbank or what they receive when they deposit funds with the Bank, 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 RIX PAYMENT SYSTEM AND BANKNOTES AND COINS

The Riksbank has been entrusted by the Riksdag to promote a safe and efficient payment system. The Riksbank has interpreted this task as meaning that it should work for stability in the financial system as a whole. The task also includes responsibility for issuing banknotes and coins. Furthermore, the Bank has operational responsibility for the system that enables banks to execute large interbank payments by electronic means in a safe and efficient manner.

The Riksbank analyses the stability of the financial system on an ongoing basis in order to pinpoint, at an early stage, changes and weaknesses that may result in disruption of the banking system. This analysis primarily focuses on the major Swedish banks and the infrastructure required to ensure the satisfactory functioning of the payment system. In a crisis, the Riksbank may provide emergency liquidity assistance to banks under certain circumstances.

THE RIKSBANK'S INDEPENDENCE

The Riksbank is a public authority under 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. The General Council also supervises and scrutinises the work of the Executive Board.

The Riksdag has given the Riksbank independent status, making the Executive Board responsible for decisions regarding monetary policy without following directives from other parties. In delegating the task of maintaining inflation at a low and stable level to the Riksbank, the Riksdag has given monetary policy a long-term perspective and established good prerequisites for achieving confidence in the monetary policy objective. In order to gain insight into the work of the Executive Board, the Chairman and Vice Chairman of the General Council are entitled to attend Executive Board meetings, and to express their opinions, but they cannot make proposals or participate in decisions.

OPENNESS AND COMMUNICATION

The Riksbank places considerable emphasis on clear and transparent operations. A broad group of external parties must be able to understand what the Bank does, and why. There are several reasons why this is important.

One reason is that this facilitates achievement of the Bank's price stability objective. It is easier to predict monetary policy if the Bank is open

about its analysis and its decisions. It is also easier for the general public to be assured that the Bank's interest rate decisions are genuinely designed to achieve low and stable inflation. This improves the credibility of the inflation target and ensures support for expectations of an inflation rate of around 2 per cent.

Another reason is that popular support for the Riksbank is a fundamental requirement for an effective monetary policy. The Riksbank's independence also implies opportunities for insight into its operations and demands for the proper exercise of its responsibilities. Openness has been a longstanding feature of Swedish public administration, and the Riksbank is upholding this tradition.

The third reason is that the more open the Riksbank's operations are, the easier it is to evaluate them. Greater openness and clarity in the Bank's relations with the outside world lead to a better discussion of monetary policy, thus also making the Bank's operations more efficient.



Tommy Persson, Jesper Johansson, Emma Bäcke and Tracey Green

■ Maintaining the value of money – price stability

Average annual inflation measured as the change in the CPI was 2.2 per cent during 2007. The corresponding figure for underlying inflation in terms of the CPIX (previously the UND1X) was 1.2 per cent. The outcomes were in line with the Riksbank's assessments as from mid-2005. During 2007, the Riksbank decided to introduce a number of changes in the way in which monetary policy is communicated in order to make the policy clearer. The publication of the Bank's own forecast for the repo rate and the holding of press conferences in connection with all monetary policy meetings were two changes of this nature, as was the mention of members of the Executive Board by name in the monetary policy minutes, and the publication of inflation forecasts and certain key variables at monetary policy meeting when a full forecast was not announced.



Description of activities

THE IMPORTANCE OF LOW AND STABLE INFLATION

The Riksbank's key contribution to satisfactory economic development is to keep inflation at a low and stable level. There are a number of reasons for this. One reason is that companies and households have better prerequisites for judging what money will be worth in the future, thus reducing the degree of uncertainty in purchasing, investing, borrowing or wage negotiations. It also makes it easier for companies to plan and take major decisions as regards, for example, investments in new technology or more employees.

Another argument in favour of low and stable inflation is that it counteracts arbitrary redistribution of resources between different groups in society. If inflation is unexpectedly high, for example, savers, lenders or employees with long-

term wage agreements may lose because the money they receive will be worth less than they anticipated when they opened their savings accounts or signed loan contracts or wage agreements. The winners, instead, will be borrowers and employers.

TARGETS AND MONETARY POLICY STRATEGY

The Sveriges Riksbank Act stipulates that the Riksbank is to maintain price stability. The Riksbank has defined the inflation target as 2 per cent per year, measured as the annual percentage change in the consumer price index (CPI), with a tolerance interval of ± 1 percentage point to make it clear that it is not always possible to meet the inflation target precisely. At the same time, the interval indicates that excessive deviations cannot be accepted if the target is to continue to be credible.

The CPI measures the price of a basket of goods and services, although there is no specific inflation measure that indicates the monetary policy required at each given point in time. As a result, the Riksbank's analysis also employs various measures for underlying inflation. The CPIX (formerly the UNDIX) is one such measure that is frequently employed by the Riksbank when explaining its monetary policy decisions. The CPIX is the CPI excluding the direct effect of changes in indirect taxes and subsidies (as a result of fiscal policy) and household mortgage interest expenditure (as a result of monetary policy, for example).

It normally takes some time before changes in the Riksbank's policy rate (the repo rate) have a full impact. Typically, it is estimated that the greatest impact on production and inflation occurs within two years. As a result, monetary policy should preferably be guided by forecasts for inflation and the economy. All the Riksbank's repo rate decisions are accompanied by a forecast by the Executive Board how the rate should develop in order for the inflation target to be attained within two years in normal circumstances.

The Riksbank conducts what is often termed flexible inflation targeting. The aim is not only to stabilise inflation around the target but also to contribute to sustainable growth and a high level of employment. By refraining from getting



inflation back on target as quickly as possible in the event of shocks to the economy, the Riksbank helps to ensure that fluctuations in production and employment are evened out. A two-year horizon helps to stabilise production and employment, while permitting the Riksbank to maintain credibility for the inflation target.

If the inflation target is to be credible and if monetary policy is to be conducted in a flexible manner, the Riksbank must be open and clear. As a result, the Bank publishes analyses and background information for interest rate decisions on an ongoing basis, including forecasts for inflation, economic developments and the policy rate.

THE RIKSBANK'S CONTROL OF INTEREST RATES

The Riksbank uses the repo rate to control inflation in Sweden. The repo rate determines how much the banks have to pay when they borrow funds, or what they receive when they place deposits with the Riksbank, thus affecting other interest rates in the economy and, ultimately, the level of economic activity and inflation.

Via its repo rate decisions, the Riksbank steers the shortest interest rate for loans between the banks, that is, the rate that the banks pay when they borrow from or lend to each other overnight. The somewhat longer-term market interest rates are also affected by expectations concerning developments in the repo rate, although interest rates with a term of more than two years are not affected to the same extent by expectations regarding imminent aspects of monetary policy. In this case more long-term inflation expectations, and hence the need for changes in rates in the long term, are the decisive factor. As a result, stable inflation expectations also stabilise long-term interest rates.

THE REPO RATE'S IMPACT ON THE ECONOMY AND INFLATION

What effect does a change in the repo rate have on economic development and inflation? An increase in the repo rate immediately leads to higher short-term rates, and this, in its turn results in reduced consumption and investment, since it then becomes more expensive to borrow for investment or consumption purposes, and more profitable to save. This reduces demand in the economy and inflation will decline in the long term.

Another effect of higher short-term interest rates is that demand for Swedish kronor (SEK) may increase, which means that the exchange rate tends to strengthen. A stronger krona means that it will be cheaper to import goods from other countries since buyers will get more goods for the same expenditure in terms of kronor. Conversely, Swedish goods will become more expensive in other countries, and this subdues inflation. If the Riksbank reduces interest rates, this has the reverse effect.

In other words, when the Riksbank changes the repo rate, this affects the economy and inflation at several levels and over an extended period. Some of these effects have a rapid impact, for example on borrowers with variable mortgage interest rates. In other cases, the effects are much more gradual, for example the impact on companies' wage costs.

WORK AND DECISION-MAKING PROCESSES IN THE MONETARY POLICY AREA

Since the full impact of a change in interest rates on production and inflation is not felt for one or two years, the Riksbank bases its decisions on forecasts and estimates. Such assessments obviously involve uncertainties and, as a result, the Riksbank is continuously trying to develop its forecasting methods and to predict the future with greater skill.

The economic realities are complex, and therefore the Riksbank has to base its forecasting on simplified correlations – in other words models. These forecasts are then combined with expert assessments in the various areas. The Bank, for example, analyses the growth and inflation outlook in Sweden and abroad, and also developments in the financial markets, the price of assets such as shares and housing and inflation expectations. The Riksbank's forecasts are based on the path for the repo rate over the next three years which the Executive Board currently considers to be the most appropriate for achieving the inflation target in combination with a balanced development of production and employment.

The Executive Board holds a number of monetary policy meetings every year – there were seven scheduled meetings during 2007, but there will be six ordinary meetings per annum as from 2008. A Monetary Policy Report containing detailed forecasts for the economy and inflation, and interest rate assessments will be published in connection with three of these meetings. As from December 2007, forecasts for certain key variables such as inflation and GDP growth will also be published in connection with the other monetary policy meetings. A new interest rate path is also published on these occasions.

Approximately two weeks after each monetary policy meeting, the Riksbank publishes the minutes of the meeting, providing an opportunity to follow the part played by the various members in the discussion and the way they voted. The Riksbank is statutorily obliged to present to the Riksdag a written report on monetary policy at least twice a year. So far, this has taken the form of a Monetary Policy Report, presented a couple of weeks before the Governor appears before the Riksdag Committee on Finance to answer questions about monetary policy.

The Riksbank's research

The research conducted by the Riksbank aims to develop models and tools to provide a basis for the analyses required by the Executive Board for its decisions. Access to the best possible models and tools increases the Bank's opportunities to meet the challenges that occur in the process of achieving a low and stable rate of inflation and financial stability.

Research activities involve many areas which are an important factor in the Bank's activities, for example monetary policy, the banking system and financial markets. Research on the development of analysis methods is also carried out, as is the case in many other central banks.

Research results are published in the form of working papers, and subsequently in international scientific journals, which safeguards the quality of such research. Results of the Riksbank's research are also disseminated at seminars and conferences. Another important task performed by the Riksbank's Research Division is to provide a link between the academic world and the Bank. This is achieved by means of guest researchers, by teaching and tutoring university students and by arranging workshops and conferences.

The monetary policy analysis conducted by the Riksbank covers many variables and involves many difficult assessments and decisions. Basing the analysis on a "general equilibrium model" is an increasing common strategy employed in the central bank world to handle decisions subject to uncertainty. A model of this nature may be envisaged as a laboratory covering the entire economy, in principle, and can be used by the Riksbank to study the way in which a change in one or more economic variables affects the economy as a whole.

Ramses, the Riksbank's model (a general equilibrium model of the Swedish economy) has been in use for a couple of years now, and is a well established tool in the analysis process. Research is being conducted in parallel to improve the model further to ensure even closer links with the real world. During 2007, research centred on improving the model in three areas: the financial sector, the labour market and foreign trade. The first stage is to develop each area separately and then insert the modifications jointly into the model. More long-term research into the models fundamental mechanisms is also under way.

Although Ramses provides a very good basis for monetary policy analysis, some questions also call for more specialised models, for example the way in which the Swedish economy is affected by trends in housing prices and housing construction. As a result, the Riksbank is developing a model with a particular emphasis on the housing sector but which tries to include effects on the economy as a whole despite its special focus on housing. This model enables the Riksbank to improve its analysis of the way housing prices affect demand in the economy since it estimates the impact of various changes in the housing market on consumption and growth.

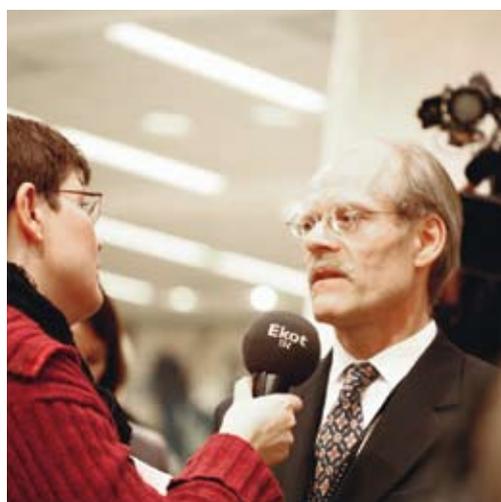
The Riksbank organised a conference on productivity issues in late November. Leading researchers discussed the key factors that explain productivity trends, measured in different ways. Discussion in a final panel debate focused on opportunities for gaining a better understanding of the factors that determine productivity by gathering new statistics at the micro level – for example in order to obtain a clearer picture of the way companies try to improve productivity by means of restructuring and IT investments.

Activities in 2007

During the year, the Riksbank continued to raise the repo rate in order to prevent excessive inflation in 2008 and 2009 as a result of growing cost pressures in the economy. The repo rate was raised by 1 percentage point in stages, from 3.0 to 4.0 per cent. In other respects, monetary policy in 2007 largely centred on efforts to make the Bank's monetary policy even clearer. To this end, the Riksbank made several changes in the way monetary policy is communicated.

THE RIKSBANK'S OWN INTEREST RATE FORECAST

At the first monetary policy meeting of the year, the Riksbank started to publish its own repo rate forecast. As from the autumn of 2005, forecasts for inflation and the economy as a whole were based on the interest rate expectations of market agents. But as from 2007, forecasts are instead based on the Executive Board's view of the way



During the year the Riksbank made a number of changes in order to become clearer and more open. The Bank began to publish an interest rate forecast after each monetary policy meeting and forecasts for various other variables, held press conferences after each monetary policy meeting and published names in the minutes.

in which the repo rate should develop. The aim is to be more open and clear about how the Riksbank sees future interest rate developments. This makes it easier for the general public and market agents to understand the Executive Board's discussion of future economic developments and what members of the Board consider to be a well balanced monetary policy.

The interest rate forecast was presented in the first Inflation Report, which was simultaneously renamed the Monetary Policy Report, thus clearly indicating that the report contains monetary policy assessments as a result of the publication of the interest rate forecast.

OTHER CHANGES IN MONETARY POLICY COMMUNICATION

In addition to the publication of the Bank's own interest rate path, the Executive Board decided to implement a number of other changes in the way monetary policy is communicated. Press conferences are to be held after each monetary policy meeting, instead of being confined to occasions when the interest rate is changed or a Monetary Policy Report is published, as in the past. Commencing in June, members making contributions to monetary policy meetings have been mentioned by name in the minutes. In addition, the Executive Board decided to only issue forward-looking monetary policy signals in connection with the monetary policy meetings, and that repo rate forecasts and a number of key variables are to be published at monetary policy meetings when the Riksbank does not publish any Monetary Policy Report.

As in the case of the publication of the Bank's own interest rate forecasts, the object of these changes was to make monetary policy clearer. Since the Riksbank now publishes its own interest rate forecasts, the Executive Board considered that there was no longer any urgent need to present new assessments of future interest rate developments between meetings. As a result, the Executive Board decided to only issue forward-looking monetary policy signals in connection with the monetary policy meetings.

The Executive Board also decided to reduce the number of scheduled monetary policy meetings from seven to six per year, as from 2008.

The Board considered that six meetings a year is enough for the conduct of a sound monetary policy, ensuring that the publication of new forecasts at each meeting is meaningful.

Members of the Executive Board commented on reactions to and experience of these changes in various speeches. They stressed that the reason for the changes was to make the Riksbank more open and clear as regards the way in which monetary policy is conducted. However, at the same time they also emphasised that it may take time to adjust to these changes, both for the Riksbank and market agents, and that all parties are at the learning stage.

RESPONSE TO THE EVALUATION OF MONETARY POLICY

In February, in its consultation response, the Executive Board commented on recommendations for changes in monetary policy presented in a report entitled “An Evaluation of Swedish Monetary Policy 1995—2005”. This report was published by the Riksdag Committee on Finance in November 2006.

The Executive Board agreed with most of the recommendations in the report, including the conclusion that stable asset prices should not be a separate target for monetary policy. The Executive Board emphasised that the inflation risks and the risks for the real economy associated with asset prices should be taken into account in monetary policy decisions.

On two points, however, the conclusions drawn by the Executive Board differed from those in the evaluation. The Executive Board did not agree with the recommendation that it should conduct a monetary policy that compensates for periods in which inflation is above or below target by subsequently exceeding or failing to meet the inflation target in the corresponding manner. Neither did the Executive Board accept a recommendation that the inflation target should be defined in terms of some price index other than the CPI.

UND1X BECOMES CPIX

A further change during the year was the change in name for the measure of underlying inflation from the UND1X to the CPIX. The change in

name makes no difference to the way this measure is calculated, but was simply introduced because the old name was not considered to be user-friendly. At the same time, Statistics Sweden ceased publication of the UNDINH measure of underlying inflation, which is the UND1X excluding price developments for mainly imported goods. This was because it has become increasingly difficult to determine which goods are mainly imported.

COMPANY SURVEY

During 2007, for the first time, the Riksbank carried out a survey of some 60 companies in the Swedish business sector. A survey of this nature will be undertaken prior to each Monetary Policy Report. The main purpose is to obtain more information about company plans and reactions in the light of current economic circumstances. But the Riksbank also needs to increase its knowledge about company and sector conditions in the business sector as a whole.

MONETARY POLICY DECISIONS DURING 2007

Interest rate raise in February and forecast for further raises.

At the beginning of the year, the Riksbank saw a strong economy ahead, both in Sweden and abroad. Employment and productivity were expected to continue to rise rapidly, although the Riksbank assessed that productivity would not increase at the same rapid rate when the labour market situation improved. It appeared that prices would increase more slowly than anticipated, as a result of lower energy prices and a stronger Swedish krona during 2007, but the Riksbank considered that inflation would rise gradually in the future as resource utilisation increased.

The Riksbank presented its own interest rate forecast for the first time in February. According to this forecast, a couple of increases in the repo rate would be required during the first half of the year to ensure that inflation was on target and to achieve balanced development of the real economy (see Diagram 1). As a result, the Executive Board decided to increase the repo rate by 0.25 percentage points to 3.25 at its monetary policy meeting in February.

The Riksbank’s forecast surprised some economic analysts and market agents, who had



adjusted their own interest rate forecasts upwards in line with developments abroad and anticipated greater increases in interest rates in the future than predicted by the Riksbank. As a result, reactions were relatively substantial. Interest rates declined and the Swedish krona weakened. But in view of the difference between the overall forecasts made by market agents and the interest rate forecast published by the Riksbank, interest rates fell to a relatively limited extent. The market participants' interest rate expectations continued to be higher than the Riksbank's forecast. One reason was that certain market agents made a different assessment of economic activity and its impact on inflationary pressures. They believed that the Riksbank would ultimately need to revise its assessment of inflationary pressures and raise its interest rate forecast. However, there was considerable divergence of views between market agents and some of them were closer to the Riksbank's view.

No change in interest rates during the spring, but a different assessment of future rates

There was only a marginal change in the assessment of the future business and inflation outlook in March. The new wage agreements which were in the early stages of negotiation certainly ap-

peared to increase the risk of somewhat higher inflationary pressures. But the Executive Board considered that it was too early to draw any conclusions about the impact of these agreements on inflationary pressures before the negotiations were concluded. As a result, the repo rate remained unchanged.

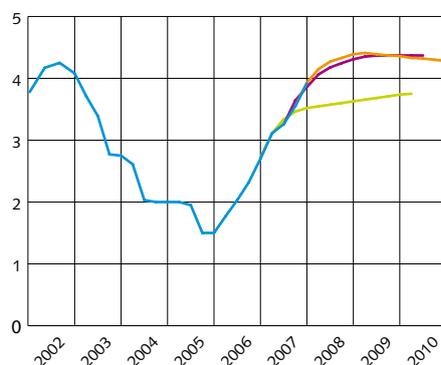
In May, the picture of rising cost pressures was reinforced. Although economic activity developed more or less in line with the Riksbank's expectations, there were factors that might augment inflationary pressures. Fiscal policy appeared to be more expansionary than previously assumed, and unemployment was somewhat lower. In addition, at this stage the wage negotiations looked as if they would result in higher wage increases than had been forecast previously. But there were also factors that indicated that inflation would be held back, for example continued high productivity and low import prices. In view of this, the Executive Board decided to leave the repo rate unchanged. But, at the same time, the members of the Board considered that increasing cost pressures would mean that the repo rate would need to be gradually increased more in the future than the Board had believed in February. At this point the Riksbank had not yet decided to publish a new interest rate path at each meeting. Comments on the need for changes in interest rates in the future were expressed instead in qualitative terms.

Interest rate raise in June and interest rate forecast adjusted upwards

In June, the latest statistics indicated that GDP growth in Sweden for the first quarter had slowed unexpectedly rapidly. The main feature was weak growth in exports and household consumption. However, various indicators suggested that this weakening of growth was only temporary. Economic activity abroad continued to develop strongly, and households' disposable income was expected to increase significantly. The impression that the labour market was becoming tighter and that cost pressures were rising became increasingly clear. Unit labour costs increased dramatically during the first quarter due to weak productivity growth and high wage increases, following three years of relative stability.

DIAGRAM 1
Repo rate forecasts at
different points in time
Per cent, quarterly averages

- Repo rate
- Repo rate forecast MPR 2007:3
- Repo rate forecast MPR 2007:2
- Repo rate forecast MPR 2007:1



Source: The Riksbank

As a result of increased cost pressures and the strength of the economy, the Riksbank raised the repo rate by 0.25 percentage points to 3.5 per cent. This decision was in line with the interest rate forecast established in February, but at the same time the Executive Board made an upward adjustment in the interest rate path for the next few years – in line with the assessment at the meeting in June (see Diagram 1). The Executive Board considered that the repo rate should be about 4 per cent at the end of the year, with one or two further increases in the coming years.

Once again, reactions to the Riksbank's interest rate forecast were relatively strong. In the short term, the Bank's forecast did not differ greatly from market forecasts, but in the longer term, the market agents still anticipated higher increases in the repo rate than the Riksbank forecast. Nonetheless both short-term and long-term rates increased when the Riksbank published its forecast. The extent of the market's reactions can only be partially explained by rising interest rates in other countries. The market had probably also anticipated that the Bank would publish a lower interest rate forecast.

Greater uncertainty during the autumn

During the second half of the year, there were further signs of a tighter labour market and higher cost pressures. Employment expanded roughly at the expected rate, but on the other hand the increase in labour supply weakened. As a result, open unemployment was less than expected. Growth during the second quarter was somewhat higher than anticipated, and various surveys indicated that the economy continued to be strong during the summer. The Executive Board considered that productivity growth was a key factor in the assessment of inflation trends in the next few years. Productivity had developed more slowly than expected during the first quarter, and the same applied in the second quarter, according to preliminary statistics from the National Accounts. As inflation increased, companies and households had adjusted their expectations for inflation in the coming year upwards.

Hence the new information about the Swedish economy since June suggested that inflationary pressures were slightly higher than expected

Interest rate decisions in 2007

■ 14 February: The repo rate was raised by 0.25 percentage points to 3.25 per cent.

■ 29 March: The repo rate was left unchanged at 3.25 per cent.

Deputy Governor Svante Öberg entered a reservation regarding this decision and considered that the repo rate should be raised by 0.25 percentage points, with an upward adjustment of the interest rate path. He considered that the upside risks had increased appreciably since the monetary policy meeting in February. Developments in the real economy had been stronger than forecast, the labour market had continued to improve more rapidly than predicted, and the wage negotiations would appear to result in higher wage settlements than estimated.

■ 3 May: The repo rate was left unchanged at 3.25 per cent.

Deputy Governors Svante Öberg and Lars Nyberg entered reservations concerning this decision and considered that the repo rate should be raised by 0.25 percentage points, with an upward adjustment of the interest rate path. They both considered that the upside risks had increased appreciably since the monetary policy meeting in February. Economic developments were stronger, wage negotiations appeared likely to result in higher wages, fiscal policy was more expansive and credit expansion continued to be at a high level.

■ 19 June: The repo rate was raised by 0.25 percentage points to 3.5 per cent.

Deputy Governor Svante Öberg entered a reservation against the Monetary Policy Report. He considered that the report, per se, provided a good basis for the Executive Board's meeting and agreed on the whole with the outline of economic developments over the next few years. But in Mr Öberg's opinion, inflationary pressures would be stronger in the next few years than envisaged in the main scenario in the report. As a result, he considered that the policy rate would probably need to be raised more than envisaged in the main scenario.

■ 6 September: The repo rate was raised by 0.25 percentage points to 3.75 per cent.

■ 29 October: The repo rate was raised by 0.25 percentage points to 4 per cent.

Deputy Governor Svante Öberg entered a reservation against the Monetary Policy Report. He considered that labour market developments would be stronger than those envisaged in the report and that wage increases would be higher than in the report. As a result, inflationary pressures would be greater, implying a greater need for an increase in the policy rate. As a result, Mr Öberg tended to prefer the interest rate path presented in the alternative scenario, with higher wage increases and lower productivity than in the report's main scenario.

■ 18 December: The repo rate was left unchanged at 4 per cent.

Deputy Governor Svante Öberg entered a reservation against the decision to maintain the policy rate and considered that it should be raised by 0.25 percentage points. He also entered a reservation against the Monetary Policy Update and the interest rate path presented in this context. Mr Öberg considered that developments in the labour market would be reinforced and that inflationary pressures would be greater than in the Monetary Policy Update. According to Mr Öberg, the economic outlook indicated a relatively high policy rate in 2008, with a possible reduction at a later stage if inflationary pressures slackened.

and that, as a result, the repo rate should be adjusted upwards somewhat. However, it was much less certain how strong growth was abroad, following the financial turmoil in the wake of the crisis in the US mortgage market. The Riksbank considered that this might also slow down economic development in Sweden somewhat. Overall, at the meetings in September and October it was concluded that the repo rate would nonetheless need to be increased at roughly the same rate as the Executive Board had assumed in June (see Diagram 1). The repo rate was raised by 0.25 percentage points on both occasions. In October, the Riksbank's repo rate forecast complied closely with market forecasts, and reactions after publication were limited.

During the final quarter, uncertainty increased about developments abroad as a result of the crisis in the US mortgage market. Growth in Sweden also seemed to slacken quicker than expected. The financial turmoil meant increasing differences between interest rates on interbank loans and the interest rates on government securities, resulting in higher costs for borrowing by companies and households, which was expected to reduce consumption and investment. Inflation was also higher than anticipated. In other words, the situation continued to be difficult to assess, with forces pulling in different directions. The repo rate was left unchanged and there was a marginal downward adjustment in the interest rate forecast in December. Market interest rates declined somewhat when the interest rate forecast was published.

Follow-up

Since the effects of the Riksbank's changes in the repo rate are gradual, a follow-up and evaluation of monetary policy must look retrospectively at forecasts and interest rate decisions over the previous two years. In assessing the Riksbank's monetary policy, the outcome for inflation in 2007 should be compared with the forecasts for 2007 made in the period 2005 to the beginning of 2007, on which interest rate decisions were based during this period.

It is also appropriate to study the way inflation expectations have developed when following up the monetary policy process. When inflation deviates from the target as a result of some disturbance, the Riksbank normally endeavours to restore inflation to 2 per cent within two years. If inflation expectations for the next two years are around 2 per cent, this indicates considerable confidence in the Bank's ability to achieve the inflation target.

INFLATION IN 2007

During 2007, inflation continued to be low, but started to increase somewhat. On average, the CPI increased by 2.2 per cent and the CPIX (formerly the UND1X) increased by 1.2 per cent during the year (see Table 1). The difference between the CPI and the CPIX during the year was almost entirely due to increased household mortgage interest expenditure. Interest costs of this nature are affected by two factors: the actual interest rate development and changes in the value of single-family dwellings. These two factors both contributed, to an equal extent, to the increase in interest costs for private housing in the CPI during the year.

Table 1
Comparison between different measures of inflation. Annual percentage change and standard deviation.

| | ANNUAL AVERAGE | | | STANDARD DEVIATION | | |
|-------------------|----------------|-----------|------------|--------------------|-----------|------------|
| | 2007 | 1995-2007 | 1995-2007* | 2007 | 1995-2007 | 1995-2007* |
| CPI | 2.2 | 1.2 | 1.4 | 0.6 | 1.0 | 1.0 |
| CPIX | 1.2 | 1.5 | 1.7 | 0.4 | 0.8 | 0.8 |
| CPIX excl. energy | 1.5 | 1.4 | | 0.3 | 0.8 | |

Note: Inflation measures calculated in accordance with the new method that started to apply as from January 2005.
*Inflation measures for the period 1995–2004 calculated in accordance with the method employed prior to 1 January 2005, and for 2005–2007 in accordance with the new method. The standard deviation is based on monthly data for inflation (12 month change).
Sources: Statistics Sweden and the Riksbank.

During 2007, underlying inflation, measured in terms of the CPIX, was roughly the same as in 2006. On the other hand, there were differences in price developments in various categories of goods and services. If energy prices are excluded, CPIX inflation increased much more rapidly in 2007 than in 2006 (0.6 per cent). Changes in energy prices held back CPIX inflation during 2007, primarily due to a decline in consumer electricity prices. The prices of other goods and services increased, however, exerting an upward pressure on CPIX inflation.

FORECASTS 2005–2007

The forecasts from 2005 and 2006 presented in this context are based on the assumption that the repo rate develops in accordance with market expectations, as reflected in the “implied forward rates”. Forecasts made in 2007 are based on the Riksbank’s own interest rate forecasts.

Inflation forecasts

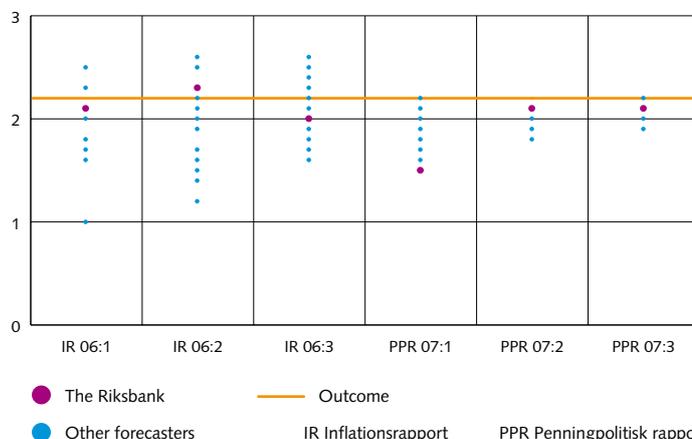
In mid-2005, the Riksbank made a downward adjustment in the inflation forecast for 2007 since resources utilisation and cost pressures were expected to be lower than previously estimated. This downward adjustment was primarily because new statistics indicated that the economy had expanded considerably slower than expected. The CPI inflation forecasts for 2007 prepared later in 2005 and in 2006 were subsequently in line with the final inflation outcome.

A comparison between various forecasters indicates a relatively wide range in the forecasts for CPI inflation in 2007 carried out in 2006 (see Diagram 2). The Riksbank’s forecasts during the year were among the more accurate.

However, the Riksbank made a larger forecasting error than other experts in its first Monetary Policy Report in early 2007, when the CPI and CPIX forecasts were adjusted downwards rather heavily. These adjustments were primarily caused by the development of energy prices. Energy prices had been falling for some time, and the Riksbank considered that this would have a relatively substantial impact on CPI inflation. In point of fact, energy prices helped to hold back inflation during 2007, but not to the extent envisaged by the Riksbank at the beginning of the year. However, in

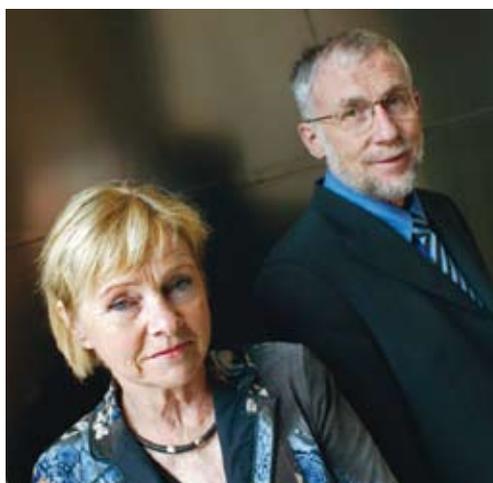
DIAGRAM 2

Forecasts for CPI inflation in 2007 at various points in time
Per cent, annual average



Note. The comparison with other forecasters includes the compilation prepared by Consensus Economics Inc. (which among others includes the National Institute of Economic Research, and Swedish and foreign banks) and the Ministry of Finance, the Swedish Trade Union Confederation and certain other international organisations. The Diagram only shows forecasts on occasions when the Riksbank published a forecast. Since few forecasters make forecasts for inflation that extend two years into the future, no comparison is made for inflation forecasts for 2007 made in 2005. It should be noted that the number of forecasters is roughly the same on each forecast occasion, but if several forecasters make the same forecast, the number of dots will be reduced for the occasion in question.

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



At the end of April the General Council appointed two new members to the Riksbank’s Executive Board – Barbro Wickman-Parak and Lars E.O. Svensson.

its Monetary Policy Report the Riksbank stressed that the substantial fluctuations in energy prices that had occurred meant that inflation tendencies were highly uncertain in the short term. The forecasts were adjusted up again in the second Monetary Policy Report for the year.

In comparison with the CPI forecasts, which were in line with the outcome, the Riksbank overestimated underlying inflation in 2007 by about half a percentage point in the forecasts made in 2005–2006. This was not due to over-estimation of the strength of the economic upturn. Production in 2006 – which may be assumed to have influenced inflation in 2007 – increased even more than anticipated.

Growth forecasts

The forecast for GDP growth in 2006 was adjusted upwards on a relatively substantial scale in the third Inflation Report in 2005, partly because both monetary and fiscal policy had become more expansionary. The forecast was progressively adjusted upwards during the remainder of 2005 and the first half of 2006 as new statistics indicated sustained and very strong economic activity. The long-awaited improvement in employment also finally appeared to be under way. When the statistics for the second quarter of 2006 proved to be considerably healthier than expected, the growth forecast was adjusted upwards in the third Inflation Report in 2006, to a level close to the outcome for 2006.

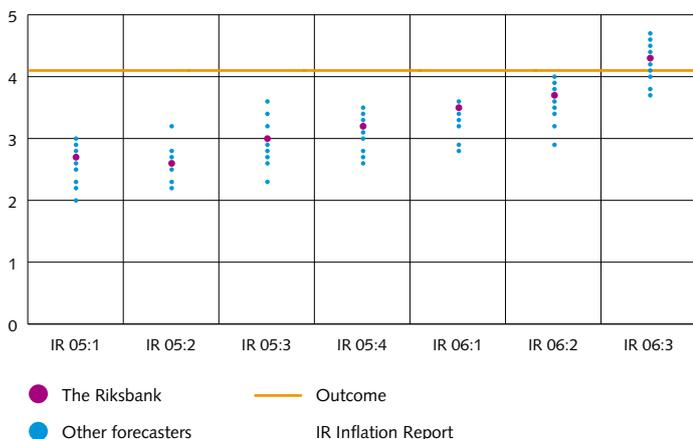
A compilation of the GDP growth forecasts in 2006 by various forecasters indicates that the strength of GDP growth took everyone by surprise (see Diagram 3). One striking example is that even the forecaster with the highest growth forecast for 2006 underestimated the final outcome for GDP growth as late as mid-2006.

One of the main reasons for the unexpectedly high increase in production while price increases were held back was the rapid improvement of productivity in the economy in the period 2002–2006. As in the case of GDP growth, the Riksbank underestimated the extent that productivity would increase in 2006, prior to the third Inflation Report in 2006. High productivity growth has meant that production has been able to increase rapidly without companies' labour costs per unit produced increasing that much. During 2006, for example, the labour cost per unit produced was unchanged in comparison with 2005. The low level of cost increases has meant that the need to raise prices has been limited and inflation has thus been held back.

In addition to productivity growth in Sweden, low pressure on prices abroad has also helped to hold back inflation. Price increases on imported goods have been limited – import prices for producers on consumer goods in Swedish kronor when the goods enter Sweden declined from mid-2006 to mid-2007, for example. Since then, prices have begun to rise. One reason for low import prices appears to be a change in the pattern of imports, with a growing proportion

DIAGRAM 3

Forecasts for GDP in 2006 at various points in time
Per cent, annual average



Note. The comparison with other forecasters includes the compilation prepared by Consensus Economics Inc. (which among others includes the National Institute of Economic Research, and Swedish and foreign banks) and the Ministry of Finance, the Swedish Trade Union Confederation and certain other international organisations. The Diagram only shows forecasts on occasions when the Riksbank published a forecast. Since few forecasters make forecasts for GDP growth that extend two years into the future, no comparison is made for GDP growth forecasts for 2006 made in 2004. It should be noted that the number of forecasters is roughly the same on each forecast occasion, but if several forecasters make the same forecast, the number of dots will be reduced for the occasion in question. The Riksbank's forecasts for IR 05:1 and IR 05:2 are made under the assumption that the repo rate complies with the "implied forward interest rates".

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

coming from “low cost countries”. This has helped to reduce the prices paid by Swedish importers, although it is difficult to estimate the impact on the prices paid by Swedish consumers.

THE EXECUTIVE BOARD'S MONETARY POLICY DECISIONS 2005–2006

Decisions during 2005

During 2005, based on forecasts and assessments, the Executive Board decided to keep the interest rate unchanged, with the exception of June, when the interest rate was lowered from 2 per cent to 1.5 per cent. During 2006, however, the forecasts indicated that the interest rate needed to be raised. As a result, the rate was increased by 0.25 percentage points on six occasions, and stood at 3.0 per cent at the end of the year.

In early 2005, the information available suggested that the growth rate was slowing down to some extent. It was considered that the Swedish economy would continue to develop well, although it was assumed that the economy would enter a calmer phase in the future. The Riksbank considered that resource utilisation would gradually improve and that, as a result, inflation would increase, although this would be more slowly than the Bank had assumed previously. It was considered that various structural factors, such as stiffer competition, high productivity growth and low import prices would subdue inflation more than had been predicted. Nonetheless, the Riksbank believed that inflation would be in line with the target, in a two-year horizon.

During the spring of 2005, several indicators suggested that the upturn in economic activity would be weaker than anticipated. The repo rate was lowered in June by 0.5 percentage points to 1.5 per cent. The main reason was that new statistics indicated that the economy had been growing much more slowly than expected in late 2004 and early 2005. The Riksbank considered, however, that this was a temporary phenomenon, and that most factors indicated that growth would nonetheless be relatively good in the future.

This assessment received growing support in the course of time. As a result, the Riksbank left the repo rate unchanged during the rest of the year. This led to some upward revision of growth and inflation. The Riksbank continued to consider

that inflation would increase as time passed, although only at a relatively modest rate.

Decisions during 2006

In early 2006, the Riksbank believed in a continued economic upturn during the year, which would then slow down somewhat. The labour market situation also appeared to be brighter. Since productivity was rising rapidly at the same time, the Riksbank considered that cost pressures would nonetheless be held back. Inflation was low but was expected to increase and would be close to target within a couple of years. In this assessment, it was assumed that the Riksbank would raise the repo rate at the beginning of the

Interest rate decisions in 2005

- 27 January: The repo rate was left unchanged at 2.0 per cent
- 14 March: The repo rate was left unchanged at 2.0 per cent
- 28 April: The repo rate was left unchanged at 2.0 per cent
- 20 June: The repo rate was lowered by 0.5 percentage points to 1.5 per cent
- 23 August: The repo rate was left unchanged at 1.5 per cent
- 19 October: The repo rate was left unchanged at 1.5 per cent
- 1 December: The repo rate was left unchanged at 1.5 per cent

Deputy Governors Villy Bergström, Lars Nyberg and Eva Srejber entered a reservation against this decision and considered that the repo rate should be raised by 0.25 percentage points in view of the fact that there were increasing indications of a stable and lasting upturn in the economy and that it was now desirable to initiate the gradual tightening of monetary policy that they considered would be necessary in the future. This would reduce the risk of a further weakening of the Swedish krona as a result of higher interest rates in Europe, and an increase in interest rates would signal to the housing market that the current rate of price increases was not sustainable.

Interest rate decisions in 2006

- 19 January: The repo rate was raised by 0.25 percentage points to 1.75 per cent
- 22 February: The repo rate was raised by 0.25 percentage points to 2.0 per cent
- 27 April: The repo rate was left unchanged at 2.0 per cent
- 19 June: The repo rate was raised by 0.25 percentage points to 2.25 per cent
- 29 August: The repo rate was raised by 0.25 percentage points to 2.5 per cent
- 25 October: The repo rate was raised by 0.25 percentage points to 2.75 per cent
- 14 December: The repo rate was raised by 0.25 percentage points to 3.0 per cent



year, and that the rate would be gradually increased subsequently, in line with expectations in the financial markets.

Hence the Executive Board decided to increase the repo rate by 0.25 percentage points at the monetary policy meetings, both in January and February. The Executive Board also considered that there were grounds for taking into account the fact that house prices and lending to households had been increasing for a number of years at a rate that did not appear to be sustainable in the long term. This might involve the risk of considerable fluctuations in the economy at a future date. One way of taking these risks into account was to increase the interest rate somewhat earlier than what might otherwise appear to be the most appropriate moment. The aim was to help to ensure that house prices did not increase at such a rapid rate, thus ensuring that the real economy and inflation would also develop in a stable manner in the longer term.

In June 2006, the Riksbank considered that it was appropriate to increase the interest rate by 0.25 percentage points once again. New statistics showed that the upturn in the economy was continuing, and the forecasts indicated that inflation would rise on target roughly in accordance with previous assessments if the Riksbank gradually increased the repo rate.

During the second half of the year, new statistics for the National Accounts and the labour market indicated that the upturn in the economy was stronger than the Riksbank had assumed. The Executive Board also noted that the labour market situation had clearly improved, and that employment was rising. In addition, household borrowing was increasing and house prices were rising. All in all, this suggested that the Riksbank would need to introduce further increases in the repo rate if inflation was to be on target. As a result, the repo rate was increased by 0.25 percentage points, both in August and October 2006.

In October, it was, in point of fact, considered that inflation would be slightly under the target in a two-year perspective, but also that was partly because the decline in energy prices was temporarily slowing down the rate of price increases. The Riksbank thought that inflation would rise when this effect faded away. As a result, the repo rate was also raised by 0.25 percentage points in December 2006.

Was monetary policy during the evaluation period well-balanced?

To summarise, during 2005 and 2006 the Riksbank considered that the upturn in the economy would continue, and that cost pressures and resource utilisation would gradually increase. Nonetheless, it was thought that inflationary pressures would continue to be limited due to a number of factors that were holding inflation back. One key factor of this nature was a strong productivity development that both helped to restrain price increases and push up production.

Towards the end of 2005, the Riksbank left the repo rate unchanged and, at the beginning of 2006 introduced a number of raises which have continued until the end of 2007. The overriding question during this period concerned the rate at which the repo rate should be raised in view of the continuing buoyancy of the economy, the low initial rate of inflation, and the risk of an excessively rapid increase in inflation at a later stage.

The Riksbank made the assessment that the repo rate should be raised at a rate that helped to ensure that inflation gradually rose towards the target in the long run. This implied that in-

flation was expected to be below target for a relatively long period. A policy of this nature would, in the Riksbank's view, help to ensure that inflation in terms of the CPI would end up at approximately 2 per cent during 2007, with underlying CPIX inflation of around 1.5 per cent. With hindsight, it may be noted that inflation in 2007 was closely in line with these forecasts. In conducting this monetary policy, the Riksbank reckoned that growth in the economy would continue to be high, and this also proved to be the case.

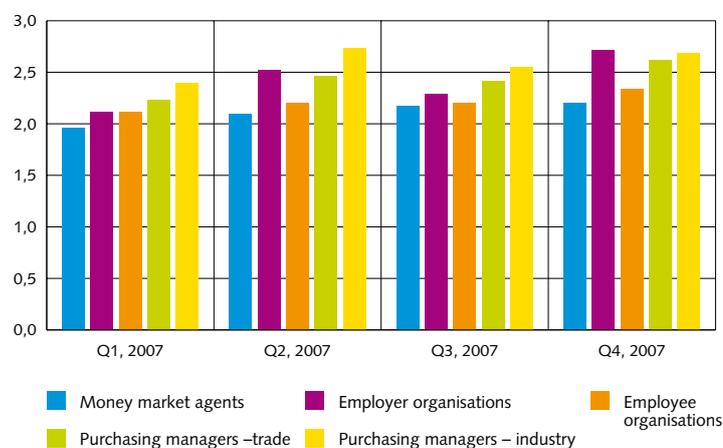
It is always hazardous to evaluate monetary policy when the answers are already known. The economy is continually affected by disturbances that are difficult, or impossible, to foresee. One example is energy prices, which fluctuated considerably during the period, sometimes moderating and sometimes forcing up the CPI and CPIX outcomes. The real point of interest is whether the monetary policy was reasonable, given the information that was available when the repo rate decisions were taken. On this basis, and in the light of economic developments during the period, monetary policy in the period 2005–2006 appears to have been well-balanced.

INFLATION EXPECTATIONS

If inflation expectations are stable and are close to the inflation target over the next couple of years, it is a sign that the general public has confidence in the Riksbank's achievement of its target. A high degree of confidence in the inflation target increases the possibilities of taking into account factors other than inflation when drawing up monetary policy – for example growth and employment.

It is important for the Riksbank to be able to analyse inflation expectations since they also provide valuable information about future inflation, particularly in the long term (for details, see the article on households' inflation expectations in the Monetary Policy Report 2007:3). If inflation expectations deviate from the target, they may be self-fulfilling. If, for example households believe that inflation will rise, they may demand higher wage increases which, in their turn, may force companies to charge higher prices to compensate for higher wages. This may result in a vicious circle in which higher inflation leads to

DIAGRAM 4
Different agents' inflation expectations for 2009 during 2007
Per cent



Source: Prospera Research AB

higher inflation expectations, which leads to higher inflation, and so on. However, it may be noted that the inflation expectations reported in the National Institute of Economic Research's consumer tendency survey (previously Household Purchasing Plans (HIP)) have not been self-fulfilling during the 1990s and the early years of the present century.

Diagram 4 shows inflation expectations for two years ahead (i.e. 2009) on the part of money market agents, employer and employee organisations and purchasing managers in trade and industry. Although inflation expectations increased during 2007 compared with 2006, they still appear to be relatively close to the inflation target and, in addition, do not differ greatly from the Riksbank's own forecast for inflation two years ahead. This indicates the various groups surveyed still have confidence in the Riksbank's achievement of its target.



■ A safe and efficient payment system

The stability of the financial system continued to be sound during the year. The banks improved their profitability as a result of increased lending and a high level of activity in the stock market. The Riksbank was able to identify a number of risks, however, some of which increased during the year. These risks are discussed in the Financial Stability Report, which celebrated its tenth anniversary in November 2007. During the year accessibility in the payment system was slightly below target. The new structure for cash management was also implemented on a full scale.

Financial stability

Description of activities

The financial system consists of banks and other financial entities, various market places and the infrastructure that supports the system's various functions. The purpose of the system is to convert savings into investments, to manage financial risks and to provide payment services. If the financial system is inefficient, this gives rise to considerable costs to society. As a result, the state has strong incentives for safeguarding the stability of the financial system in various ways. This takes the form, for example, of the drawing up of regulatory structures and the monitoring of entities that form part of the system.

Almost all economic activities assume that payments can be implemented. As a result, a safe and secure payment system that functions smoothly is a crucial factor in the economy. The Riksbank has been charged by the Riksdag to promote a safe and efficient payment system, and this involves preventing crises in the payment system and handling such crises if they should occur. The Riksbank's responsibilities also include the issuing of banknotes and coins. The Bank also provides a system for large interbank payments in Swedish kronor – the "RIX" system.

To prevent crises from arising, the Riksbank monitors the participants in the financial system who play a key role in ensuring that the system is able to fulfil its function. The Riksbank must be able to identify the risks and influence the major participants in the system. As a result, the Riksbank publishes Financial Stability Reports twice a year in which it presents its assessments.

The Riksbank's responsibilities also include influencing the regulatory structures that have an impact on the stability of the system, and for conducting research that can increase the possibility of identifying risks as they emerge. The following section describes in more detail the way in which the Riksbank performs these tasks. Figure 1 provides an overview of the elements involved in promoting a safe and efficient payment system.

FIGURE 1
The Riksbank's promotion of a safe and efficient payment system





Björn Segendorff, Linda Palmqvist, Gunnar Blomberg, Kristina Ljöfstrand and Tomas Lundberg.

OVERSIGHT OF THE FINANCIAL SYSTEM

The Riksbank oversees stability primarily by assessing if risks are emerging in the major Swedish banks or in key aspects of the payments system, including technical systems and the rules and routines for the payment of securities, foreign currency, goods and services.

The Riksbank focuses on overseeing the major banks because they play a key role in the payment system. Most payments take place through transfers from one account to another and, as a result, total interbank payments involve considerable volumes. In addition, the banks are also the primary source of capital in the economy, and they offer opportunities to manage risks. With the passing of time, however, other financial entities and markets have become increasingly important for the financial system, and hence also for the banks. The banks mainly finance their opera-

tions in the financial markets, and they also rely on these markets for risk management requirements. In addition, a high proportion of the banks' revenues is derived from trading in securities. As a result, the Riksbank oversees the financial system as a whole, including the financial markets.

Lack of confidence in a bank can rapidly lead to liquidity problems which spread throughout the entire banking system. This is because both deposits by the general public and financing from other banks may come to a halt rapidly, while the bank's realisation of its assets takes more time. The great volume of interbank payments means that problems rapidly spread to other banks, and this is also aggravated by the fact that the banks borrow from each other, obtain their financing in the same markets and are exposed to the same categories of borrowers. As a result, healthy banks and markets that function smoothly are fundamental requirements for the stability of the financial system.



During the spring the Riksbank issued a coin to commemorate Carl von Linné. It was issued in gold in the denomination SEK 2 000 and in silver in the denomination SEK 200.

INFLUENCING THE FINANCIAL REGULATORY SYSTEM

Influencing the design and preparation of regulatory structures and standards for the financial entities and markets is a key aspect of the Riksbank's endeavours to achieve financial stability. The financial markets are no longer bound by national frontiers, and regulations and standards are increasingly drawn up on an international basis, for example in the framework of EU cooperation and the Bank for International Settlements (BIS). The Riksbank plays an active part in such discussions, and international operations are increasingly important.

The Riksbank exerts an influence of the formulation of regulatory structures for Swedish financial companies and markets in the form of its responses to requests for official consultation. Such consultation covers both Swedish legislation and proposals for new EU regulations.

Crisis management

If a crisis occurs in the financial system, despite the requisite regulatory structures and oversight, the Riksbank must react to minimise the costs to society as a whole. The Riksbank has a special responsibility in this context since a financial crisis is often initiated by a liquidity crisis in the banking system. In such cases, the Riksbank may provide emergency liquidity assistance to a bank subject to supervision by Finansinspektionen (the Swedish Financial Supervisory Authority). A further requirement is that the Riksbank considers that the bank in question is solvent. A decision on the manner in which a liquidity crisis in a bank is to be tackled must be handled very quickly since liquidity weaknesses in a bank which is crucial to the financial system may spread rapidly to other banks, and thus pose a threat to the stability of the entire system.

In other words, preventive monitoring is a prerequisite for the rapid assessments by the Riksbank required for effective action in a crisis situation. If it is to handle a crisis efficiently, the Riksbank must keep plans for a contingency organisation up-to-date on a continuous basis. The Riksbank organises in-house crisis exercises in order to evaluate and upgrade its ability to handle crisis situations, and also participates in exercises with other Swedish and foreign authorities, primarily supervisory authorities and ministries of finance. Crisis exercises have become increasingly important, in line with the expansion of cross-border banking operations.

Preparing Financial Stability Reports

The Riksbank publishes Financial Stability Reports twice a year, in which the Executive Board presents its assessments of financial stability in the financial system. The Riksbank also presents the risk scenarios identified by the Bank, and whether the risks have increased or decreased. The aim is to influence the agents that are important to the stability of the financial system, including banks, the infrastructure required for the smooth operation of the financial system, legislators and international institutions, and also agents in the markets in which Swedish banks obtain their financial resources. A high degree of credibility for the analyses in the reports es-

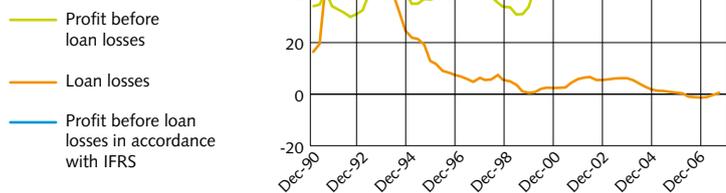
tablishes the prerequisites for their impact. This makes demands on the expertise and openness of the Riksbank.

The starting point for assessments in the Stability Reports is the risks in the financial markets that may have an impact on agents in the Swedish payment system. The Riksbank also analyses trends in borrowers' ability to honour their commitments and, as a result of the Bank's insights into profitability, the quality of assets and financing, their ability to cope with unexpected losses. The Riksbank also carries out stress tests to assess how less probable but nevertheless fully possible events would affect the banks' resilience. The financial infrastructure is also analysed in order to obtain a picture of structural weaknesses which may spread via the payment system.

The Riksbank discusses the contents of these reports with representatives of the major banks, Finansinspektionen and the Ministry of Finance after each publication occasion, in order to influence and develop its analytical process.



DIAGRAM 5
Profit before loan losses and net loan losses in the major banks
Summarised over four quarters, SEK billion at 2007 prices



Note. Net loan losses are provisions for actual and anticipated credit losses after recoveries and cancellations of earlier provisions

Sources: The banks' earnings reports and the Riksbank

Activities in 2007

During the year, the Riksbank published Financial Stability Reports in June and December. In addition, the Riksbank gave a number of speeches to present its views on stability issues concerning, for example, the challenges faced by central banks and other public authorities that are responsible for promoting financial stability. One such challenge involves banks with operations in more than one country.

The Riksbank has also arranged three crisis exercises – two of them in-house and one which involved the participation of Swedish and international authorities. The Riksbank has also responded to a number of requests for consultation with links to financial stability issues. Two conferences with a focus of research linked to financial stability were arranged during the year. One conference centred on research on stress tests, with the participation of a number of central banks, while the other conference commemorated the tenth anniversary of publication of the first Financial Stability Report. At that time, the Riksbank was a pioneer in this field, but subsequently many other central banks have followed suit and now issue similar reports. Researchers and decision-makers from various countries participated, and the aim was to elucidate ways in which greater financial integration and a higher degree of market-based financing can affect stability in the financial system.

Representatives of the Riksbank visited the Baltic central banks during the autumn in order to improve insights into developments in the Baltic countries, where Swedish banks have extensive operations.

SOUND FINANCIAL STABILITY IN 2007

In the Riksbank's view, financial stability was sound during 2007. The ability of the commercial banks to withstand unexpected losses was satisfactory and operations were clearly profitable. As a result, they were in a strong position to cope with unexpected negative developments. A rapid increase in lending operations, particularly in the Baltic countries, resulted in higher net interest income, that is to say the difference between what the banks receive in interest on the money they lend and what they pay in the form of interest on deposits. In combination with strong net commission revenue – net receipts on the commissions earned by the banks when they buy and sell securities on behalf of their customers – this contributed to a satisfactory level of profitability.

The Riksbank assessed, however, that the banks' ability to withstand shocks declined somewhat during the second half of the year. The risks of liquidity problems in the financial markets increased due to the turmoil in financial markets in the aftermath of problems in the US mortgage market during the autumn, reflected for example in the rapid increase in the differentials between the market interest rates for interbank loans and the rate for treasury bills (see Diagram 6). As a result, the banks' vulnerability to other disturbances increased. The risks in the Baltic countries' economies also increased during the year while at the same time Swedbank and SEB relied increasingly on profits from operations in these countries. There were growing signs of overheating, especially in Latvia. In addition, many borrowers took on a foreign exchange risk since a substantial and growing proportion of borrowing was denominated in euro (EUR). These foreign exchange risks will continue to apply until these countries become full members of the European Economic and Monetary Union.

The Riksbank also identified other risks that might pose a threat to stability if negative developments continue. One risk of this nature was that falling prices in the commercial property market might result in losses for the major Swedish banks. This assessment was based on the fact that property owners have had unduly optimistic expectations as regards future revenues. Another risk was that the strong expansion of household debt and the increase in house prices would continue for some time to come. Abrupt price adjustments in the future might then have negative effects on

the real economy, and hence also on the banks. Neither of these risks increased during the year, however.

Three scenarios were tested in the stress tests carried out during 2007: a substantial decline in creditworthiness on the part of borrowers in the Baltic countries, a significant deterioration of economic activity, and a scenario involving increased costs for the banks' market financing. All tests indicated that the banks would be able to cope with these developments, but that their ability to withstand such reverses has been impaired.

In its annual evaluation of the major clearing and settlement systems, the Riksbank assessed that they complied with joint international standards and that, overall, the Swedish financial infrastructure maintained a good international standard. The systems covered were Bankgirocentralen (BGC), VPC and, to some extent the Stockholm Stock Exchange. The Riksbank also evaluated the Bank's own payment system (RIX). For the second consecutive year, both VPC and the Stockholm Stock Exchange were assessed in cooperation with Finansinspektionen.

During 2007, the Riksbank published two articles in the Financial Stability Report, one of which discussed the effects of foreign ownership in the banking sector. The conclusion drawn by the Riksbank was that foreign ownership would have a positive impact on both efficiency and stability, but that it would also call for greater cooperation between the authorities in the various countries concerned. The other article pointed out the challenges faced by public authorities as a result of the greater interdependence of different markets and a system which is becoming increasingly complex and more difficult to understand.

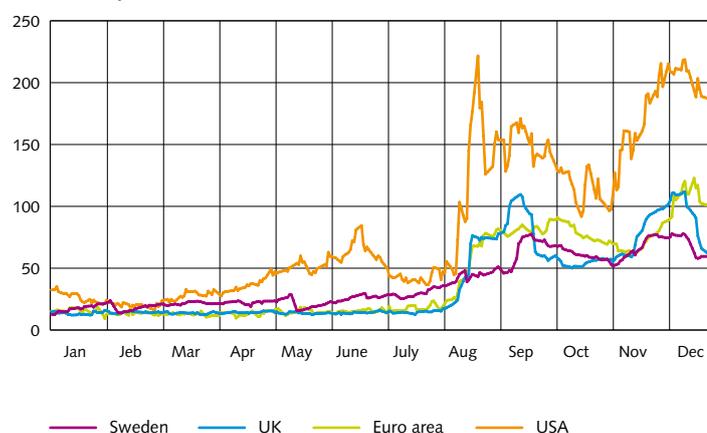
INFLUENCING REGULATORY STRUCTURES AND STANDARDS

During the year, the Government set up an official committee to review the deposit guarantee. The Riksbank has two representatives on this committee – the committee's chairman (the General Counsel) and a special expert. The committee was established to propose changes to rectify deficiencies in the regulatory structure revealed in connection with the course of events in the Custodia credit market company. The committee is to present its report in October 2008.

The Riksbank is also represented on an internal

DIAGRAM 6

The difference between interbank interest rates and interest rates on treasury bills in 2007
Interest points



Note. The differences are based on the difference between the three-month interbank rate and the three-month treasury bill in the country/area concerned

Source: Reuters Ecowin

committee in the Ministry of Finance which is investigating the public administration of banks in a crisis situation.

During the year, the Riksbank responded to 23 domestic requests for consultation and two EU consultations in the financial stability context. One consultation was handled in the form of an expression of opinion in the Ministry of Finance's consultation response and the other was a joint response by the Riksbank, Finansinspektionen and the Ministry of Finance.

CRISIS MANAGEMENT

During the autumn of 2007, a Nordic-Baltic crisis exercise was conducted, with the participation of central banks, supervisory authorities and ministries of finance from all the five Nordic countries, and also the central banks in the Baltic countries. During the year, the Riksbank also organised two smaller internal crisis exercises.

During the year, the Riksbank participated in a working group assigned to present proposals on ways in which the EU's efforts to further financial stability and crisis management can be improved. The working group was appointed by the EU's Economic and Financial Committee. The group's recommendations were adopted during the autumn by the Ecofin Council in which the ministers of finance of member states participate. Key aspects of the agreement stipulate that the EU is to agree on common principles

for crisis management and a common analysis framework for assessing how the financial system is affected by a crisis.

Within the framework of the ECB cooperation, the Riksbank has chaired a group for which the aim is to develop a framework for assessing whether a crisis will have an impact sufficiently serious to threaten essential functions in the financial system. This group (the Task Force on Crisis Management – TFCM) submitted its final report during the year, setting out the principles that should apply for crisis management in cross-border banks.

In December, the Riksbank received a report from the National Audit Office entitled *Krisberedskap i betalningssystemet - tekniska hot och risker* (Crisis preparedness in the payment system – technical threats and risks, RiR 2007:28). This report will be analysed and discussed during 2008.

Follow-up

The financial system is stable, providing that it can handle its primary functions. It is only when a serious crisis occurs that it can be concluded that the Riksbank's task to promote a safe and efficient payment system has not been fulfilled. Only then can it be determined whether contingency planning has been adequate.

But even the absence of serious crises does not necessarily mean that the Riksbank has fulfilled its task, since considerable time may elapse before a risk results in a crisis. As a result, this is more a question of whether the Riksbank's focus has been on the right questions and if the right conclusions have been drawn, and if the Riksbank has succeeded in influencing the key agents in the financial system. Therefore, evaluation of how well the Riksbank has handled its assignment must be based on qualitative assessments.

The financial system was stable during 2007, but the financial markets were characterised by considerable unrest during the second half of the year. The turmoil began in the US mortgage market and spread faster than expected to the international markets, with a considerable deterioration in liquidity. The problem then spread to the market for short-term interbank lending. Swedish banks were also affected, but to a lesser extent than the banks in many other countries. Some central banks were forced to provide liquidity on other terms than usual. The Swedish banks were mainly affected by higher costs for financing their

operations, since a high proportion of their financing is in the market for short-term interbank borrowing.

One reason for these rapid developments was that investors had for some time been content to receive a very low rate of risk compensation. The Riksbank has previously pointed to the danger of a very rapid increase in risk premiums, thus reducing liquidity in the financial markets. In the event, this development was scarcely unforeseen but, on the other hand, the speed at which the process occurred was surprising, and that liquidity problems also put solvent banks at risk. In its previous Financial Stability Reports, the Riksbank has also discussed the risks in the US mortgage market and the difficulties of assessing the credit and liquidity risks in securities with complex underlying assets. The problems during the autumn of 2007 were exacerbated by uncertainties about the risks in securities with underlying assets that consisted of credit portfolios containing “sub-prime loans”.

The crisis exercises organised by the Riksbank indicated that there was room for improvement in some areas, and one of the conclusions drawn in the internal exercises was that methods and analysis tools needed to be clearer and easier to use. This is particularly important since decisions must be taken very quickly. The crisis exercise involving participants from several countries indicated that coordination between the authorities in various countries needed to be improved in a number of instances. The participants have drafted a joint evaluation of this exercise.

The follow-up of what is happening to the statutory proposals on which the Riksbank has expressed a consultative opinion provides one way of assessing whether the Bank's views on regulatory structures and standards have been taken into account. In one case, this involved a request for a consultative opinion from the Ministry of Finance regarding the possibility of temporarily reducing the charges for banks for the deposit guarantee system. The Riksbank rejected the proposal since it did not comply with a number of important principles – for example that the system must be governed by stable rules, be self-financing and that the charges must be risk-based. So far, no parliamentary Bill has been presented. On the whole, however, it is difficult to determine the weight given to the Riksbank's views in the final decisions.

The RIX payment system

Description of activities

The Riksbank owns and operates the RIX system, which is the hub in the Swedish payment system. All interbank payments and payments between other agents such as BGC are handled via RIX which, as a result, is of strategic importance to the Swedish financial system. Weekly volumes, which amount to approximately SEK 2,500 billion, almost correspond to total GDP, that is to say the value of all the goods and services produced in Sweden in the course of a year. At year-end 2007, RIX had 21 participants, including the four major banks and clearing houses.

It is essential that there is sufficient liquidity in the payment system if it is to function efficiently, thus enabling participants in the system to pay other participants without having to wait for payments from other parties. As a result, the Riksbank grants credit to participants, against collateral, primarily Swedish and foreign securities but also in the form of foreign currency. The Riksbank also cooperates with the Danish and Norwegian central banks in order to permit participants to utilise the liquidity available in these countries. The Riksbank's management of these securities and information about them is almost totally computerised, in order to increase the efficiency of operations.

If RIX was to cease to function, this would have a serious impact on the banks' ability to handle their payments. As a result, the Riksbank has established clear targets to guarantee that RIX is safe and efficient. Firstly, the system must be 99.85 per cent accessible during hours of operation during the calendar year. In addition, RIX has emergency routines for handling payments if the system is not functioning. Secondly, at least 80 per cent of its customers must be satisfied.

The Riksbank's aim is that RIX is to be financed in full by charges paid by participants.

Activities in 2007

During 2007 the RIX system handled a daily average of 7 740 payments, an increase of 14 per cent compared with the previous year. The daily volume averaged SEK 491 billion, which was roughly at the same level as in 2006. On average, participants provided collateral amounting to SEK 138 billion during 2007.

In 2004, the Riksbank decided to procure a new



The Riksbank's Financial Stability Report celebrated its 10th anniversary in November. The Riksbank was thus one of the first central banks to present a separate report with an assessment of the stability of the financial system. Many other central banks have since followed this example.

technical system for RIX. As the result of a public procurement process, a supplier for the new system was selected in the summer of 2005. The new system was to come into operation in February 2007. Due to delays on the part of the supplier, the Riksbank postponed this date until October 2007.

During the summer of 2007, however, the Riksbank noted that it was not feasible to take the new system into operation in October, and the system delivered proved to continue to have deficiencies. As a result, the Riksbank has decided to postpone introduction of the new system until the autumn of 2008, although the Bank has taken the necessary measures to ensure that RIX can continue in operation without interruption.

In August 2007, the Riksbank decided to establish the RIX Council, in which participants in the system and the Riksbank have opportunities to discuss issues involving the RIX system. This primarily involves strategic issues such as objectives, costs, charges for services in the payment system, collateral for credits in the RIX system and matters concerning regulatory structures and continuity. The RIX Council met seven times during 2007, under the leadership of the head of the Asset Management Department (prior to 2008, the Market Operations Department).

Follow-up

The payment system has functioned satisfactorily on the whole during 2007. Accessibility has been interrupted on four occasions, of which the longest breakdown was four hours. This incident was caused by failure in the international system that handles information used in the RIX system. During 2007, RIX was accessible for 99.79 per cent of its working hours, which is slightly less than the 99.85 target, but which may nonetheless be regarded as acceptable.

The Riksbank normally carries out an annual survey of participants in RIX as regards their views on the system. However, due to delays in the introduction of the new technical system, no survey was conducted during 2007. As a result, the most recent statistics date from 2005, with more than 80 per cent customer satisfaction. The next survey results will be available in 2009, when the system has been in operation for some months.

The provision of banknotes and coins

Description of activities

The Riksbank's responsibilities for the payment system also include supplying banknotes and coins. The work includes supplying banknotes and coins, destroying banknotes and coins that can no longer be used and accepting banknotes that are no longer legal tender.

The Riksbank has two branches and via these supplies the banks with cash. The banks, or their agents, then distribute the cash to retailers and the general public.

The Riksbank does not determine over how much cash is in circulation; instead this is determined by demand from the general public.

The Riksbank's objective in the context of the provision of cash is that cash management is to be safe and efficient, and at a limited cost, but with no constraints on safety and quality. Participants in the cash management process must have confidence in the Riksbank, and the general public must have a high degree of confidence in Swedish banknotes and coins.

In order to maintain confidence in Swedish banknotes and coins, the Riksbank tries to ensure they are not easy to counterfeit. Swedish banknotes are only counterfeited to a relatively limited extent in comparison with the banknotes in other countries. This is partly because the Swedish krona is a minor currency, but also because Swedish banknotes are difficult to counterfeit.

Activities in 2007

CASH MANAGEMENT

Since 2004 the Riksbank has been developing a new structure for cash management, and in 2007 this structure came into full operation. As a result, the banks and the bank depot companies have greater incentives to trade cash, without involving the Riksbank. If a depot has a shortage of banknotes, it can

TABLE 2

| Banknotes and coins | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|-------------|-------|-------|-------|-------|
| Average value of banknotes and coins in circulation (SEK billion) | 109.5 | 106.5 | 105.6 | 102.7 | 101.0 |
| Average value of coins in circulation (SEK billion) | 5.7 | 5.4 | 5.5 | 5.3 | 5.1 |
| Number of banknotes in circulation (million) | 390 | 372 | 366 | 359 | 357 |
| Number of banknotes cancelled (million) | 103 | 128 | 111 | 107 | 126 |
| Number of counterfeit banknotes | 1 248 | 996 | 1 849 | 2 054 | 1 832 |

Source: The Riksbank

purchase banknotes from another depot that has a surplus. In this way there is now a market for trading in cash. The Riksbank's role in this chain is solely to supply cash and to destroy banknotes and coins that can no longer be used. Three times a year the Riksbank will also accept any cash surplus.

At the year-end, there were seven bank-owned cash depots in operation. The banks plan to establish more depots during 2008.

The cash management advisory board established by the Riksbank in 2006 held two meetings during the year. In addition to the Riksbank, the participants include representatives of commercial banks, cash depot companies, security transport companies, the retail trade, the trade unions and the public authorities concerned. The board is headed by Stefan Ingves, the Governor of the Riksbank.

Issues discussed by the board during the year included cash depot expansion, the need to give cash management companies protective status, the impact of issuing a prohibition notice on cash transports, studies of the public's views on bank-notes and coins, the costs to society of card and cash payments, and a current investigation of structures, threats and risks in cash management operations. These and other issues concerning cash management were also discussed in the working groups attached to the cash management advisory board.

BANKNOTES AND COINS

The average value of banknotes and coins in circulation was SEK 109.5 billion in 2007, and increase of 2.8 per cent compared with the previous year. The value of banknotes and coins in circulation increased more in 2007 than in 2006, possibly due to the introduction of bank-owned depots holding stocks of cash. The annual rate of increase has been 2.2 per cent during the past five years, and 4.6 per cent in the period 1998-2007.

The average value of banknotes in circulation was SEK 103.8 billion, with the SEK 500 bank-note as the most common denomination, representing about 26 per cent of the number of bank-notes in circulation and 49 per cent of the total value (average during the year).

The average value of coins in circulation was SEK 5.7 billion, with the SEK 1 coin as the most common

denomination, representing 61 per cent of the number of coins in circulation and 22 per cent of the total value (average during the year).

During 2007, the Riksbank concluded the procurement process for a new supplier of coins. The Mint of Finland Ltd was awarded the tender to produce and supply Swedish coins as from 2008.

During 2007, the Riksbank issued a commemorative coin to mark the 300th anniversary of Carl von Linné's birth. This commemorative coin was issued in gold with the denomination of SEK 2 000, and in silver with the denomination of SEK 200.

During 2007, the Riksbank initiated a review of the current series of banknotes and coins. The work will continue and intensify in 2008.

The Riksbank's SEK 1 000 banknote, which was introduced in 2006, attracted international attention in 2007 and the Riksbank was awarded second prize by the International Association of Currency Affairs (IACA) for the successful integration of a new, modern security feature ("motion") in an existing traditional banknote.

Follow-up

The Riksbank's cash management was safe and efficient during 2007. During the year, the Riksbank had fewer visitors since the banks and the bank depot companies traded banknotes to a greater extent. The Riksbank completed a procurement process for a new supplier of coins, and the Riksbank's costs for the purchase of coins will be significantly lower as from 2008. During 2007, the Riksbank continued to have a high level of security at its branches, and there were no incidents directed at the Riksbank during the year.

Swedish banknotes were subject to counterfeiting to a relatively limited extent. The value of counterfeit banknotes removed from circulation during 2007 amounted to SEK 304 000, a reduction compared with the preceding year. The value reported most frequently in this context was the SEK 50 banknote.





■ Asset management

The market value of the Riksbank's financial assets was SEK 194 billion at year-end, with a return of SEK 7.8 billion, excluding exchange rate effects. The tactical asset management contributed SEK 70 million to this return, which is in line with the target level.

Description of activities

The Riksbank primarily manages financial assets to ensure that the Bank can fulfil its statutory objectives and tasks, that is to say implement monetary policy, be prepared for interventions in the foreign exchange market and be in a position to provide emergency liquidity assistance to banks if required. At a secondary level, assets are managed to provide a return that is as high as pos-

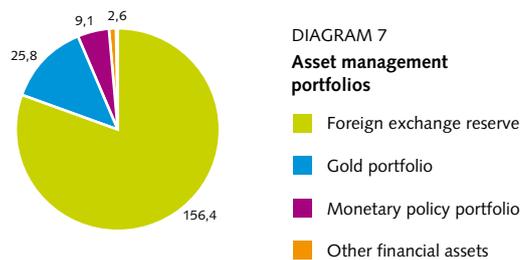
sible in relation to the risks taken. A good return on assets in the long-term also provides a guarantee for the Riksbank's financial independence

Each year, the Executive Board takes decisions on the strategic focus of asset management operations. The members of the Board determine the way in which the foreign exchange reserve is to be allocated to various currencies and assets, and the average duration for assets in the foreign



Ella Nyman-Siegel, Anna Abrahamsson Wilbe, Fredrik Leufstadius and Jonas Lundin.

exchange reserve. In this connection, the Executive Board decides the extent of the tactical deviations, that is to say the extent of deviations from the strategic management policy that the investors may apply in order to obtain a higher return. An index is established for the foreign



Source: The Riksbank

exchange reserve for comparison purposes to permit evaluation of tactical asset management.

THE RIKSBANK'S ASSETS

The Riksbank's assets may be classified under the following headings: the foreign exchange reserve, the gold reserve, monetary policy assets and other financial assets (see Diagram 7).

The foreign exchange reserve consists of interest-bearing securities in foreign currencies with high liquidity and low risk, mainly government bonds. The Bank invests primarily in euro (EUR) and US dollars (USD), but also in British pounds (GBP), Norwegian kronor (NOK), Australian dollars (AUD) and Canadian dollars (CAD) (see Table 3).

Since the foreign exchange reserve consists of foreign currencies, there is a foreign exchange risk that affects the Riksbank's earnings. As a result, in order to reduce this risk the Riksbank holds a number of currencies in the form of securities with high liquidity and not merely in the currencies mainly used for interventions in the foreign exchange market (euro and dollars).

Since the market for Norwegian government bonds is relatively small, with low liquidity, the Riksbank has decided to avoid a foreign exchange exposure in the form of direct investment in this market. This exposure is achieved instead by investment in US bonds in which the currency risk is swapped into Norwegian kronor in the currency derivatives market. In other respects,

TABLE 3
Allocation of currencies and assets in the foreign exchange reserve, per cent.

| | USD | EUR | GBP | CAD | AUD | NOK |
|---------------------|-----|-----|-----|-----|-----|-----|
| Currency allocation | 20 | 50 | 10 | 5 | 5 | 10 |
| Asset allocation | 30 | 50 | 10 | 5 | 5 | 0 |

Source: The Riksbank

the Riksbank's asset allocation corresponds with the currency allocation.

Like most other central banks, the Riksbank has a gold reserve. To some extent, this is a remnant from another era when the value of banknotes and coins in circulation was linked to gold. The price of gold tends not to follow the prices of assets in the foreign exchange reserve, and therefore a certain holding of gold may reduce the total variation in market values.

In order to implement its monetary policy, the Riksbank also holds monetary policy assets in Swedish kronor. These assets, which have a short term, are used to steer short-term interest rates in Sweden, and they consist of receivables on the Swedish banks, backed by collateral (the "monetary policy repo"). The extent of the repo depends on how much the banks jointly need to borrow from the Riksbank.

The Riksbank's other assets including claims on the International Monetary Fund (IMF) and shares in the Bank for International Settlements (BIS). These assets are held because the Riksbank is a member of these organisations, and may be seen as part of Sweden's international commitments.

THE FINANCIAL REGULATORY STRUCTURE AND THE MANAGEMENT OF RISKS

The Executive Board has approved a financial risk policy that lays down the overall frameworks for the risks the Riksbank is prepared to take in asset management. The Asset Management Department has a middle office division that is responsible for day-to-day risk management. There is also a Risk Management Division that is responsible for overall risk control, but is organisationally distinct and independent of the Asset Management Department.

The Riksbank's asset management involves financial risks in the form of market risks and credit risks. The market risk comprises currency risks, interest rate risks and gold price risks. The currency risk is the risk that the market value of the Riksbank's assets in foreign currencies declines when the value of the Swedish krona changes in relation to other currencies in the foreign exchange reserve. This is the greatest single risk in asset management, and the Riks-

bank tries to minimise it by spreading its assets over several currencies. The interest rate risk is the risk that the value of assets is affected by changes in interest rates. The gold price risk is the risk that the market value of gold declines when gold prices fall.

Credit risk is the risk of losses when the Riksbank's counterparties or issuers of securities in which the Riksbank has invested fail to fulfil their commitments.

In addition to financial risks, there are also operational and legal risks. Such risks occur in all operations and may, for example, be because someone makes a mistake or does something that is not permitted, or that a fault occurs in the technical systems.

The Riksbank monitors the risks in asset management on a continuous basis. The principal measure for market risk is Value-at-Risk (VaR). VaR measures the greatest loss that can occur as a result of price movements over a given period and with a given degree of probability. The Riksbank measures VaR over a ten-day period with a 99 per cent probability factor. The risks in tactical management are measured by relative VaR (RVaR) which, with the same degree of probability, indicates the greatest loss compared with the benchmark during a ten-day period.

The Riksbank also conducts regular stress tests to determine the sensitivity of the gold and foreign exchange reserves to unforeseen market occurrences. These tests show the extent that market values can decline in the event of the occurrence of an imaginary or historical scenario.

Activities in 2007

FOREIGN EXCHANGE RESERVE

The Executive Board decided to maintain the currency and asset allocations introduced in 2006 (see Table 3). The Board also decided that an interest rate risk of 4.0 in total should continue to be applied to interest-bearing investments, measured as modified duration. This means that the value of the foreign exchange reserve may be modified by 4 per cent if the interest level changes by one percentage point.

Since the average term for the foreign exchange reserve is relatively long – four years – the Riksbank expects to receive a higher return in the

long term. As a result, the interest rate risk is somewhat higher and there may be somewhat greater variation in annual earnings.

As a result of investments in bonds issued by “US agencies”, the Riksbank also takes some credit risk. The objective is to increase the return of the foreign exchange reserve. US agencies include US mortgage institutions with links with the Federal Government. The Riksbank also invested in securities issued by entities backed by government guarantees and international institutions. Such bonds should not be confused with the subprime-related instruments that have attracted attention in the financial turmoil that has prevailed in the past six months. At year-end, holdings of bonds issued by US agencies represented 7.5 per cent of the assets in the foreign exchange reserve.

GOLD RESERVE

During the year, the Riksbank considered, as in previous years, that the gold holding represented an unduly high proportion of the total assets. As a result, the Bank decided to sell 10 tonnes of gold within the framework of the Central Bank Gold Agreement, which is an agreement between central banks regarding the quantity of gold they may sell. The revenues from this sale were reinvested in interest-bearing assets in the foreign exchange reserve.

TACTICAL MANAGEMENT

The Executive Board decided the level that risk asset managers could apply in tactical management operations in 2007. The risks are not to exceed SEK 600 million, measured in annual relative VaR, with a return target of SEK 75 million. The Executive Board also decided that tactical management operations would be suspended if losses exceeded SEK 250 million.

Follow-up

RETURN ON STRATEGIC MANAGEMENT

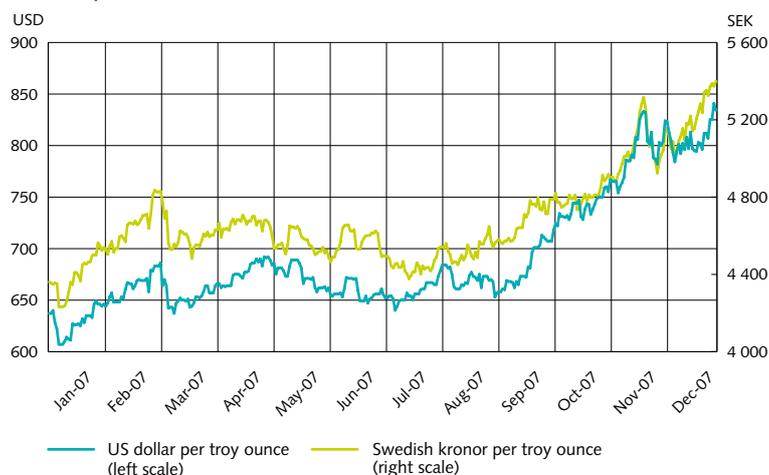
The market value of the Riksbank’s financial assets was SEK 194 billion at year end. The value of assets in gold and foreign exchange increased, but the value of monetary policy assets and other assets declined.

DIAGRAM 8
Variations in foreign exchange reserve earnings



Source: The Riksbank

DIAGRAM 9
Gold price movements in 2007



Source: The Riksbank

Foreign exchange reserve

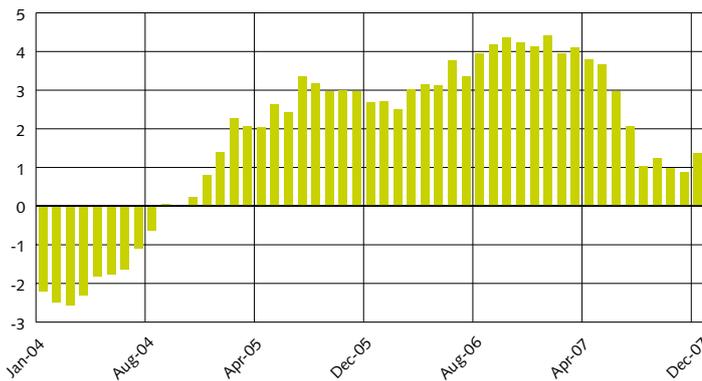
The value of the foreign exchange reserve was SEK 156.4 billion at the end of the year, and the total return was SEK 10.9 billion. The Swedish krona weakened against the currencies in the foreign exchange reserve, which had a positive impact of SEK 3.3 billion. Excluding the exchange rate effects, the return was SEK 7.5 billion, or 5.1 per cent. The turmoil in the financial markets, which resulted in a decline in interest rates, meant that the return was somewhat better than anticipated.

DIAGRAM 10
Return on the foreign exchange reserve in comparison with the index in 2007



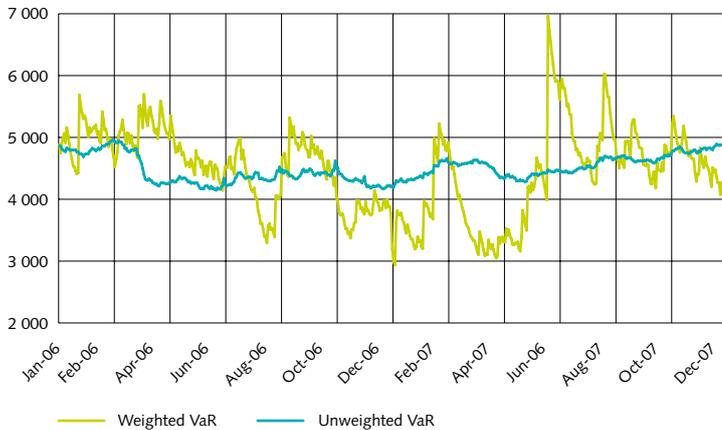
Source: The Riksbank

DIAGRAM 11
Foreign exchange information ratio 2004–2007



Source: The Riksbank

DIAGRAM 12
Value at Risk (SEK million)



Note. The diagram shows two VaR series, one of which (blue) shows unweighted VaR in which historical price fluctuations have equal weight, while the weighted series (red) gives a higher weighting to price fluctuations that are closer in time than fluctuations further back in time, which means that changes in the financial markets have a more rapid and clearer impact in the VaR calculations

Source: The Riksbank

Gold reserve

Although the Riksbank sold gold during the year, the value of the gold holding increased since the price of gold rose by 30.9 per cent. In all, the value of the gold reserve increased by SEK 3.6 billion to SEK 25.8 billion. During the year, the Riksbank sold 10 tonnes of gold in the framework of the Central Bank Gold Agreement to a value of SEK 1.5 billion.

Monetary policy assets

At year-end, the value of the monetary policy portfolio was SEK 9.1 billion, and the return amounted to SEK 140 million. Overall, the volume of monetary policy assets declined during the year as a result of a distribution to the state of SEK 4.4 billion in April.

Other assets

The Riksbank's claims on the IMF were reduced during the year, and this is reflected in the decline reported in the value of other assets. The overall value of other assets at the end of the year was some SEK 2.6 billion, and the return, excluding the foreign exchange impact, amounted to SEK 89 million.

RETURN ON TACTICAL MANAGEMENT OPERATIONS

During 2007 tactical management also made a positive contribution, with a return of SEK 69 million above the comparative index. This is broadly in line with the target of SEK 75 million (see Diagram 10).

During 2007, the financial markets were in turmoil at times, and this contributed to an increase in revenues from the Riksbank's securities lending operations. At the same time, there were considerable differences in interest rates between government bonds and other types of bonds held by the Riksbank, and this had a negative impact on the return on tactical operations.

The "information ratio" measures the correlation between the return on a portfolio in relation to the benchmark and its active risk. Ratios above zero indicate that it was profitable to deviate from the index. During 2007, the information ratio declined from high levels, but it continued to be greater than zero during the year (see Diagram 11).

RISKS IN LONG-TERM ASSET MANAGEMENT OPERATIONS

Foreign exchange rates were relatively stable during 2007, although the interest rate markets were volatile at times in the second half of the year, which contributed to a higher VaR (see Diagram 12). The Riksbank made no changes in the structure of the foreign exchange reserve during 2007.

Gold prices varied significantly, resulting in a higher VaR for the gold portfolio.

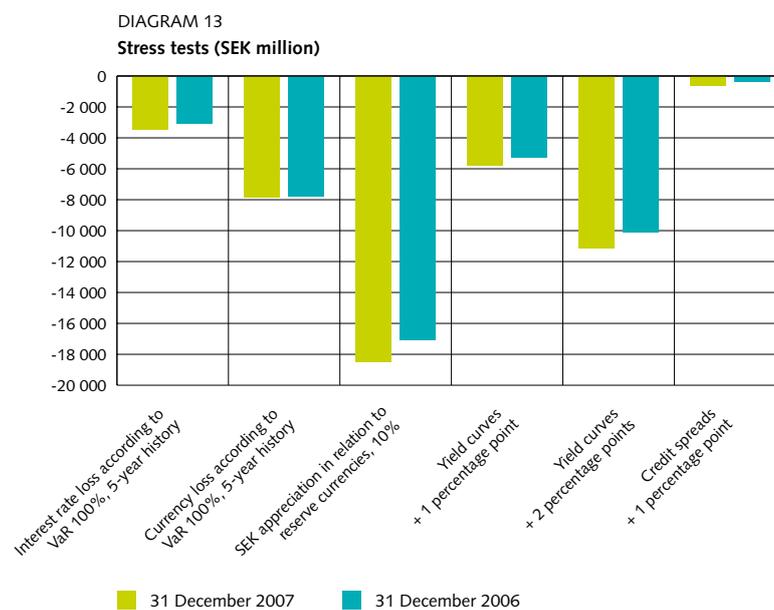
Relative VaR for tactical asset management averaged SEK 82 million during the year.

Stress tests

The Riksbank also tests the extent to which the gold and foreign exchange reserves will decline in the event of a substantial change in foreign exchange rates (10 per cent strengthening of the Swedish krona) or if there is a significant increase in interest rates (2 percentage points higher interest for all interest rate durations in all interest rate markets). The stress tests carried out at year-end indicated that such reductions in value were greater than in the VaR model (see Diagram 13).

ASSET MANAGEMENT COSTS

In addition to transaction costs charged to the return on assets, the costs for asset management were SEK 88 million during 2007. This corresponds to slightly less than 0.05 per cent of the assets managed. In its annual report for 2006, the Riksbank stated that asset management costs were approximately SEK 50 million, or 0.03 of the total assets under management. This difference is due to a change in the way costs are



allocated (see the balance sheet and profit and loss section), resulting in a higher proportion of joint costs charged to asset management than in the past. Applying the current method of allocation, the costs for 2006 would have been SEK 95 million, or slightly more than 0.05 per cent of the capital under management.

According to the McKinsey & Company consultancy firm, the Riksbank has a low cost level in comparison with comparable asset managers – see their annual study of costs for a number of capital management operations, in which the Riksbank has been included since 2005.

TABLE 4
Return on the Riksbank's asset management operations in 2007

| | Market value (SEK million) | Return (SEK million) | Return, excl. exchange rate effects (SEK million) | Return, excl. exchange rate effects (%) |
|--------------------------|----------------------------|----------------------|---|---|
| Foreign exchange reserve | 156 392 | 10 854 | 7 535 | 5.10 |
| Gold reserve | 25 827 | 5 061 | 2 | 0.01 |
| Monetary policy assets | 9 129 | 140 | 140 | 3.59 |
| Other assets | 2 621 | 339 | 89 | 3.38 |
| Total | 193 969 | 16 394 | 7 766 | 4.26 |

Source: The Riksbank

■ Statistics

During 2007, the Riksbank concluded an agreement with Statistics Sweden on the production of balance of payments statistics, in addition to financial market statistics. However, under the Sveriges Riksbank Act, the Riksbank is responsible for quality assurance and for development of the contents of the statistics.

Description of activities

In accordance with the Sveriges Riksbank Act, the Riksbank shall make public statistical data concerning foreign exchange and credit conditions on a continual basis. As a result, the Riksbank has produced and published statistics concerning the balance of payments, the financial markets, interest rates and foreign currencies. The balance of payments statistics include information on the balance on current account and capital flows. The financial market statistics contain information on the debts of both households and companies, and also the money supply.

As from 2007, the Riksbank has entered into an agreement with Statistics Sweden for the production of both financial market statistics and balance of payments statistics. However, the Riksbank continues to be responsible for quality assurance and for development of the contents of the statistics.

The aim is that the Riksbank's statistics are to maintain a high quality. One indicator of quality in the balance of payments statistics is the "net errors and omissions" which may indicate inaccuracies and other deficiencies in the statistics. As a result, in accordance with an international rule of thumb, the Riksbank has established a target under which errors and omissions must be less than 5 per cent of the current account (exports plus imports) over a 12-month period.

Activities in 2007

During 2006, the Riksbank commissioned an external study of the appropriate authority for the production and publication of balance of payments statistics. The study recommended that production should be transferred to Statistics Sweden and, following a procurement process, Statistics Sweden was assigned to produce and publish balance of payments statistics as from 1 September 2007. Financial market statistics have been outsourced to Statistics Sweden since 2003.

The Riksbank retains responsibility for both the Swedish balance of payments and the financial market statistics. The Riksbank's statistical responsibilities include the recurrent procurement of production services and determination of the level of ambition for statistics in these areas. The Riksbank is also responsible for compliance with the international requirements for financial market and balance of payments statistics.

During 2007, considerable efforts were devoted to the transition to new computer support for the production of balance of payments statistics that was introduced in late 2006. This process has primarily focused on the production of reports – for example in an international context – and the review of historical series. The new system has simplified the reporting of data by companies.

The Riksbank collects turnover statistics on a daily basis from primary monetary policy counterparties and counterparties in foreign exchange transactions. During the year, the Riksbank modified the statistical definitions, in cooperation with National Debt Office.

As from 14 June 2007, the Riksbank has published the National Institute of Economic Research's effective exchange rate index (KIX, Krona index), which is accessible on the

Riksbank's website and calculated on a daily basis. KIX is a geometric index, where the weights are based on total flows of processed goods and commodities for 32 countries.

Follow-up

The errors and omissions item in the Swedish balance of payments increased during the year, and represented 4.6 per cent of the total current account during 2007 (see Diagram 14). As in the past five years, the errors and omissions item continued to be less than the target figure of a maximum of 5 per cent of the total. The Riksbank has previously noted that this item mainly reflects cross-border financial flows that do not appear in the balance of payments statistics. This may possibly be a factor in the increase in this item in recent years. Changes such as a high degree of liquidity in the private sector and greater financial integration may contribute to difficulties in measuring financial flows to other countries.

The publication of balance of payments and financial market statistics complies with a predetermined schedule. During the year, publication occurred on more than 30 occasions, all in accordance with the timetable. There have been temporary interruptions, however, in connection with introduction of the new computer system, and this has meant that balance of payment statistics have not covered the same time-series when they were published. As a result, international reporting has been delayed.



In October Statistics Sweden took over the production and publication of the balance of payments statistics. The Riksbank has thus handed over all the production of statistics, which has been a step in the work to allow the Bank to do what it is best suited for.

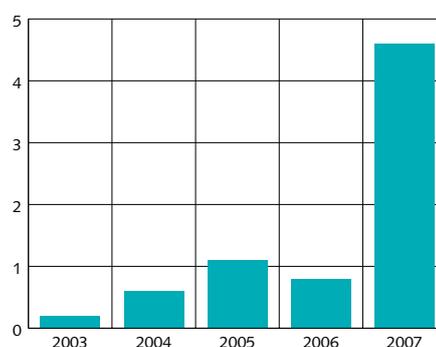


DIAGRAM 14
Errors and omissions as a percentage of the total current account balance, 2003–2007

Note. The entry for 2007 refers to information prior to 30 September

Source: The Riksbank

■ International cooperation

In 2007, the Riksbank focused in its international cooperation, for instance, on the forms for financial crisis management in the EU. Several of the Riksbank's proposals had a good impact on international discussions in this area. Also, the Bank's decision to publish its own interest rate forecast also attracted considerable interest among other central banks. The Riksbank thereby enjoyed a high level of legitimacy and a good reputation in international circles. The international cooperation also gave the Bank valuable information for its own analyses.

Description of activities

Sweden is a small, open economy and is, therefore, affected to a large extent by economic developments in the rest of the world. Financial stability in Sweden is influenced by stability conditions in the outside world, since financial entities increasingly conduct operations in many countries. As a result, it is vital to have access to good information about what is happening in other countries in order to assess the impact both on price trends in Sweden and the stability of the financial markets. It is also important to seek to influence the way in which international regulatory frameworks aiming to promote financial stability are designed. Such frameworks will also affect Sweden, for example as regards monitoring and cooperation in the event of a financial crisis. International cooperation is, therefore, an important element in the Riksbank's activities.

As Sweden's central bank, the Riksbank participates in several international organisations, and is represented in approximately 130 international groups across the entire range of activities performed by the Bank. One key arena is the European System of Central Banks (ESCB) in which the Riksbank participates at several levels, although Sweden is not participating in the cooperation concerning the euro. The Riksbank is also participating actively in other aspects of EU cooperation, and in the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Group of Ten (G10) and the Organisation for Economic Cooperation and Development (OECD). Furthermore, the Riksbank has direct contacts with the staff of

other central banks and international organisations, and participates in international seminars and conferences.

The Riksbank's international activities also include technical assistance to other central banks in fields where the Riksbank has a high level of expertise. This type of activity primarily applies to developing countries, and is financed by the Swedish International Development Cooperation Agency (Sida).

OBJECTIVES FOR INTERNATIONAL ACTIVITIES

The results of individual efforts in international cooperation often emerge gradually, and the decision-making processes are protracted. This makes it difficult to set up quantifiable objectives. The Riksbank's strategic objective is to contribute to international monetary and financial stability in the global economy, and to effective regulatory structures. The Executive Board has extensive international contact and its members participate at the highest level in the various bodies. As a result, the internal evaluation of the extent to which the Bank's objectives are achieved is based on how Board members assess the quality of analyses and the Bank's influence and legitimacy in the international cooperation.

Activities in 2007

INTERNATIONAL MONETARY FUND

The IMF has worked on reforming its activities since 2005, with the aim of strengthening the Fund's legitimacy in all member countries. One dimension of this process is to make the surveillance of national economies and financial markets more efficient, and the IMF has, for example, launched a special form of multilateral consultations. During 2007, these focused on global economic imbalances, but the IMF has also developed its bilateral surveillance by examining the way in which national economic policies affect regional and global developments. For instance, the impact of the development of individual exchange rates is to be examined more closely, for example. Sweden actively supports an active surveillance role for the IMF and has, for example, advocated surveillance on a regional basis. In order to set a good example, Sweden has welcomed an analysis of the financial sector in the Nordic countries and the Baltic countries carried out by the IMF.

During the year, IMF member countries also discussed their capital quotas and their voting rights in the Fund. Sweden considers that quotas should be determined on the basis of a formula which is transparent and sustainable over time. Sweden wants openness to carry considerable weight in this formula since it is one of the key aims of IMF activities to promote balanced relations between member countries. Sweden has also proposed that the new calculation methods should give a number of emerging market economies greater influence in the IMF, while the corresponding relative decline in the influence of the industrial countries should be allocated on a reasonable basis between small and large nations. Sweden also wants to ensure that low-income countries are well represented in the IMF.

Furthermore, the Riksbank participated actively in efforts to find better forms for financing IMF activities now that lending has decreased and, as a result, interest income has fallen. Gold sales and more active asset management may provide new sources of revenues. At the same time, the IMF's costs need to be reviewed and reduced.

The central banks and ministries of finance in the EU have taken several initiatives in recent years to coordinate the positions of member countries in the IMF. Sweden continues to belong to the constituency of Nordic and Baltic countries in the IMF, but has welcomed greater EU coordination as one way of increasing the impact of joint positions that can strengthen the IMF's effectiveness and legitimacy.

EUROPEAN UNION

In the EU, the Riksbank has given priority to work on strengthening financial sector stability in the financial sector. In a situation where a growing number of banks pursue activities in several countries, the public authorities in the EU member states must cooperate if crises occur. Crisis exercises have revealed some weaknesses in this cooperation. The public authorities must lay down clear principles for intervention, but individual banks must not take it for granted that they will always receive support from the public purse in an emergency situation.

The Riksbank contributed actively to the review of these matters under the auspices of the Econo-



During the summer the Riksbank donated its historical collection to the Royal Coin Cabinet. The collection comprised coins, medals, banknotes and other historical artefacts.

mic and Financial Committee, which subsequently resulted in a decision by the Ecofin Council in June with proposals that the Riksbank has put forward. The existing memoranda of understanding between the authorities concerned are to be extended, and to include common principles for cooperation. Further initiatives for improving cooperation and strengthening the regulatory structure for crisis management can be anticipated. In addition, other measures may be required to facilitate integration, for example as regards the system for deposit guarantee systems and the clearing and settlement of securities transactions. Such proposals are also supported by the Riksbank.

The Riksbank's decision to publish forecasts for its policy rate, and other changes in its communication concerning Swedish monetary policy, has attracted considerable interest, for example in the ECB's General Council. This has also resulted in increased bilateral contacts with several central banks in the new EU member countries in central and eastern Europe.

BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

During the year, the Group of Ten in the BIS worked to achieve a uniform implementation of the new Basel II capital requirements in order to enhance stability in the banking system. The financial turmoil in the autumn led to a special focus being put on the forms for supervision of liquidity conditions in financial institutions. Internally at the BIS, the Governor of the Riksbank was appointed to head a committee which, in preparation for the BIS board, shall discuss issues that concerning BIS financial activities. Among other things, this work deals with the objectives and focus of risk management in relation to these activities.

TECHNICAL ASSISTANCE

In 2007, the Riksbank initiated a more systematic form of cooperation for technical assistance with the Albanian central bank. At the same time, the programme for technical assistance to the central banks in Vietnam, Uganda and Sri Lanka continued. A new agreement on the financing of technical assistance was concluded with Sida for the period 2007–2011.

Follow-up

The priority given by the Riksbank to the arrangements for financial crisis management in the EU made it possible for the Riksbank to take action and receive support for several of its proposals. For example, the Riksbank enjoyed a positive response for its proposal to develop a common basis for assessing the concept of systematic importance in the financial sector. The Riksbank also actively contributed to initiating a review of the national systems for deposit guarantees, with the aim of harmonising them to a greater extent. The Riksbank's interest rate forecasts also mean that favourable attention was given to the Bank's activities.

All these factors strengthened the legitimacy and authority of the Riksbank's representatives in international fora. Representatives of the Riksbank were appointed to chair or hold other leading functions in key groups and in other forms of cooperation, for example in the work to improve the management of cross-border financial crises. The Riksbank's participation in international cooperation on such issues also had a positive effect on the Bank's efforts in this area in Sweden, fully in accordance with the Riksbank's objectives for international cooperation.

All in all, the Executive Board considered that, during 2007, the Bank achieved a high degree of legitimacy and influence in the matters which were given priority in 2007. Hence the Executive Board also considered that the Bank fulfilled its strategic objective of contributing to monetary and financial stability at the international level.

■ Organisation

During 2007, the Riksbank continued to work towards its vision of being among the best as regards quality and efficiency. The Riksbank continued to follow up its efforts to measure the achievement of its objectives. As one aspect of the ambition to concentrate on the Bank's core business, the Riksbank transferred the production and publication of statistics to Statistics Sweden, SCB. Activities were also restructured to improve efficiency. During the year, the Market Operations Department became responsible for asset management and the RIX payment system. In connection with this, the name of the department was changed to the Asset Management Department. An office service centre was established and the IT Department modified its processes and its organisational structure.

The Sveriges Riksbank Act, the Rules of Procedure and the Riksbank's Instructions determine the Riksbank's objective, its tasks and its organisational structure. The Riksbank's vision indicates the overriding objectives and focus for operations during the next ten years. It affects the Riksbank's operations in a number of areas. The Riksbank's vision is to be at the forefront as regards quality and efficiency in order to achieve a high level of confidence.

THE RIKSBANK'S VISION

The Riksbank's vision involves the organisational structure, communications, expertise and the work climate. It may be summarised by saying that the Riksbank is to be an organisation that is prepared for change, that does what it is most suited for and that evaluates its operations. The Riksbank is to be open and communicate in a

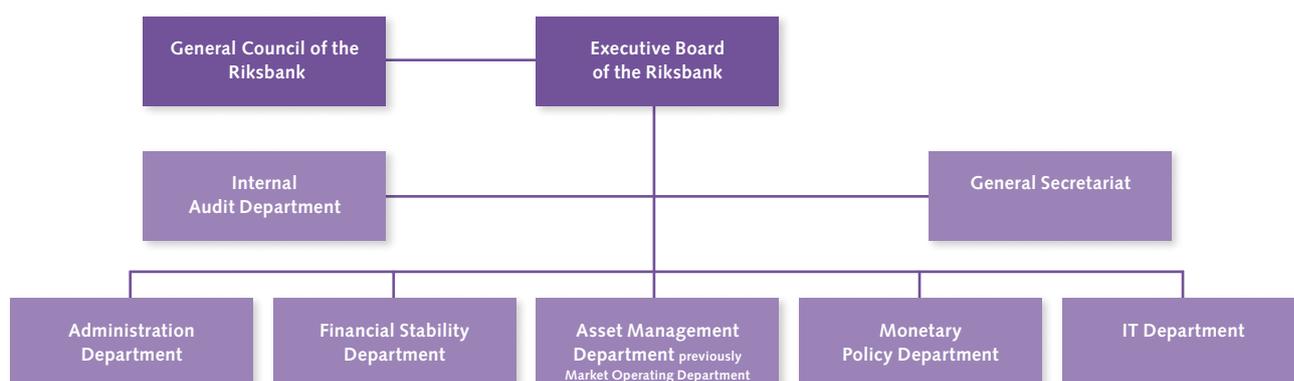
manner that permits a broad group of people outside the Bank to profit from information about the Bank's tasks and the results achieved. The Bank is to have professional staff members with both special expertise and a broad range of abilities, and with considerable understanding of both correlations and the overall picture.

In accordance with this vision, the Bank must also have a good work climate that motivates and engages its employees. The Riksbank is to provide a workplace to be proud of, in which every employee has and assumes personal responsibility and can clearly see his or her contribution to the Bank's overriding objectives. It must be possible to combine work and private life in a good way.

GOVERNANCE OF ACTIVITIES AND RESOURCES

The planning and follow-up of operations are based on the Riksbank's vision, the Riksbank's

FIGURE 2
The Riksbank's organisational structure as from 1 January 2008





During 2007 the Riksbank for the first time made a survey of companies in the Swedish business sector. The purpose was for the Riksbank to obtain further information on the companies' views of the current economic situation, but also to learn more about the conditions in the business sector in general.

strategic plan and the Executive Board's special planning requirements. The strategic plan is subdivided into seven target areas: monetary policy, financial stability, payments, asset management, statistics, international operations and internal activities (personnel, IT, administrative support and services). The strategic plan specifies the objectives for various aspects of the target areas and indicates how they are to be assessed.

The Riksbank is a decentralised organisation in which heads of departments are responsible to the Executive Board for governance and control of their operations, their efficiency, and for risk management.

The Internal Audit Department is assigned by the Executive Board to undertake independent evaluation vis-à-vis the operational activities' internal management and controls, risk management and management processes. The Internal Audit Department reports the results of its work to the Executive Board.

Activities in 2007

A few organisational changes were introduced during the year in order to live up to the targets in the Bank's vision and the strategic plan, for example appropriate internal support and services, efficient production of statistics, and efficient asset management.

The Market Operations Department was reorganised during the year to gather together all of the divisions concerned with asset management; the investment division, the middle office and the business support and payment services division (back office). As from 2008, the name of this department was changed to the Asset Management Department.

When the Asset Management Department was restructured, certain units were transferred to other departments. In the future, the Monetary Policy Department will also implement monetary and foreign exchange operations in accordance with monetary policy decisions. This department is now also responsible for the analysis of interest rates and foreign exchange rates. The responsibility for the analysis of the stock exchange and credit markets has been transferred to the Financial Stability Department, and this also applies to the responsibility for market structure, which is a natural feature of analysis of the financial infrastructure. The Business Support and Payment Services division was transferred from the Administration Department to the Asset Management Department, and this unit is also responsible for the RIX payment system.

The cash management division was transferred from the Asset Management Department to the Administration Department in order to achieve closer contacts with the security function, transport and security surveillance operations and the premises division, for example.

During the year, a new office services centre was established under the auspices of the Administration Department for office supplies, post, purchasing, printing and telephone exchange services. The aim was rationalise the Riksbank's services in these areas.

New technologies and the requirements for core operations are making new demands on IT support at the Riksbank. As a result, the IT Department carried out a project to improve its

cost-effectiveness and determine the appropriate level of service for IT support. This involved both the modification of processes and, to some extent, a new organisational structure. The work is continuing, with the object of establishing an optimal service organisation for the Riksbank.

Statistics Sweden (SCB) took over the production of statistics. SCB has better prerequisites for performing such assignments, and the fact that the Riksbank no longer produces statistics does not affect the Bank's credibility. The Riksbank continues to be responsible for the content and quality of the statistics.

Follow-up

During the year, the Riksbank took active steps to follow its vision and the strategic plan. One aspect of the Bank's vision is that it should focus on its core business, and that it should outsource functions that can be accomplished better elsewhere. Examples of functions that the Riksbank has now transferred to other parties include office cleaning, which have been outsourced to an external company, and the production of statistics, which has been transferred to SCB.

The aim of the organisational changes was to rationalise operations and establish better prerequisites for achieving targets as regards the optimum level of internal support and services, the efficient production of statistics and efficient asset management. The transfer of responsibility for the implementation of monetary policy also established the prerequisites for a greater understanding of the way the markets function and the way this affects interest rate setting.

The Riksbank also measures its achievement of its objectives by means of external surveys. One example is the SOM Institute's annual survey which investigates the habits and attitudes of the general public in Sweden regarding society, politics and the media. The SOM Institute operates under the joint auspices of three faculties at Göteborg University – the School of Public Administration, the Department of Journalism and Mass Communication and the Department of Political Science. In the 2007 survey, 48 per cent of the respondents indicated that they had a considerable or relatively large degree of confidence in the Riksbank. As a result, the Bank was in fifth

place among Swedish public sector institutions, after the medical sector, the police, higher education and radio and TV. Since this was the first occasion on which the Riksbank participated in this survey to the full extent, no proper historical comparison can be made. The Riksbank only participated on an experimental basis in 2006, and on this occasion the questions were not really posed in the same manner. In the survey in 2006, the Riksbank came in second place, and 52 per cent of the respondents had a considerable or relatively large degree of confidence in the Riksbank.

Several objectives in the strategic plan indicate that key target groups are to have a high degree of confidence in the Riksbank. This includes members of the Riksdag, the financial markets and other public authorities. During the year, a qualitative survey was carried out by an external consultant among key target groups in order to ascertain their image of and relationship to the Riksbank. This indicated that these target groups had a high degree of confidence in the Riksbank, but that certain groups required more information.

THE RIKSBANK'S ORGANISATIONAL STRUCTURE

The Riksbank was divided into seven departments during 2007. Three departments had a direct focus on the Bank's main assignments: the Monetary Policy Department, the Financial Stability Department and the Asset Management Department (prior to 2008 the Market Operations Department).

A management group consisting of the heads of all departments, with the exception of the Internal Audit Department, coordinates and monitors operations. The Head of the General Secretariat is chairman of the management group.

THE RIKSBANK'S DEPARTMENTS*The Administration Department*

The Administration Department is responsible for the supply of banknotes and coins, personnel development and recruitment, office and property services, transport, security, budget documentation, bookkeeping and salary and accounting systems.

Head of Department: Agneta Rönström

Number of employees (FTEs): 96

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 to fulfil the task of promoting a safe and efficient payment system. This department analyses the risks and threats to stability in the Swedish financial system on an ongoing basis, in which analysis of the major banks is of particular importance. This department is also responsible for controlling the risks that occur in the Riksbank's financial operations, and it is responsible for the analysis of stock markets and credit markets and the market structure.

Head of Department: Mattias Persson

Number of employees (FTEs): 38

The Asset Management Department

(prior to 2008 the Market Operations Department)

The Asset Management Department is responsible for the management of the Riksbank's gold and foreign exchange assets, the administration and settlement of transactions in the Riksbank's gold and foreign exchange reserve management, and the evaluation and measurement on an ongoing basis of outcomes and risks in gold and foreign exchange management. In addition, this Department is responsible for the RIX payment system for large-value interbank payments.

Head of Department: Sophie Degenne

Number of employees (FTEs): 39

The Monetary Policy Department

This department is responsible for analyses of monetary policy that provide a basis for decisions taken to meet the price stability target. The department implements monetary and foreign exchange policy operations in accordance with

monetary policy decisions. In addition, the department is also now responsible for all analyses of interest and foreign exchange rates. The department monitors and analyses economic and price trends, 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 (FTEs): 70

The Internal Audit Department

The Internal Audit Department is responsible for examining and assessing whether risk management and governance and management processes fulfil their purpose in the light of the objectives for the Riksbank's operations.

Acting Head of Department: Eva Fredriksson

Number of employees (FTEs): 3

The IT Department

The IT Department is assigned to provide cost-effective and user-oriented IT support for the Bank's various areas of operations. The Department is also responsible for IT architecture, the IT infrastructure, operation, maintenance, procurement, modification and adaptation of applications and systems, and for overall IT security and the PC environment.

Head of Department: Hans Ohlson

Number of employees (FTEs): 65

The General Secretariat

The General Secretariat is responsible for coordinating daily activities and for supporting the Executive Board's governance and strategic development of the Bank's operations. The Secretariat also provides secretariat services for the General Council, the Executive Board and the management group. In addition, the Secretariat coordinates the Riksbank's information and international activities, and handles legal issues..

Head of Department: Kaj Barvèll

Number of employees (FTEs): 47

The number of employees refers to the total at the end of the year.

■ Staff

WORK ENVIRONMENT

The Riksbank endeavours to be an attractive workplace that provides an outlet for its employees' motivation, efficiency and enthusiasm. All staff members are to experience a sense of participation and understand the importance of their personal contribution to the organisation.

During the year, the Riksbank developed new guidelines for the development and clarification of systematic efforts to improve the work environment. Responsibility has been transferred from the Executive Board to heads of department and, in this context, all managers have received training in working environment issues.

The Riksbank has also improved the forms for career development discussions during 2007, which are to be structured and well-prepared meetings in which managers and employees jointly provide and receive feedback, set targets and realise development needs. On such occasions, both parties should take into consideration both the past and the future, based on key concepts such as results, initiative, skills and cooperation. The same criteria provide a basis for pay decisions.

The Riksbank has extensive health-care facilities and offers its employees a well-equipped gym. All employees also have access to health-care funding for physical activities outside the Riksbank's premises.

EMPLOYEE SURVEY

The Riksbank conducted an employee survey during the autumn of 2007. The results are to be used to develop the Riksbank as a workplace. The survey took the form of an Internet questionnaire, with a response figure of 92 per cent.

In comparison with the survey conducted in 2006, the Riksbank's employee index increased from 55 to 66 on a scale of 100 points, compared with an average of 59 registered in a comparable survey of 35,000 workplaces in the public and private sector. The employee index is an average of the proportion of employees who are satisfied with the work organisation, management, the organisation climate, the personal work situation, stress, customer orientation and dynamism.

The Riksbank's index has improved in all areas, but in particular in the work organisation and organisational climate spheres. Employees feel that they are working for clearer objectives and that cooperation is more effective than in the past. The follow-up of objectives has improved, but there is still room for improvement. The survey also indicated that 78 per cent of the Riksbank's employees have confidence in their immediate superior. Confidence in the Governor of the Riksbank and the Executive Board remains at a high level.

The improvement in the Riksbank's employee index is one of the most significant noted by the survey organisation in a single year. This may be largely explained by the Riksbank's active development process at all levels in the organisation, based on results in the preceding year. Action plans will also be drawn up to maintain this positive trend, based on the results achieved in 2007.

DEVELOPMENT OF PROFESSIONAL COMPETENCE

The competence and leadership qualities of managers are a decisive factor in the successful performance of the Riksbank's assignments and achievement of its objectives. Managerial skills also play a large part in employees' motivation, work performance and job satisfaction. As a result, all managers have participated in a leadership programme during the year, as part of the overall development of skills. This involves practical training in communication skills, for example active listening and handling difficult interviews. All managers have received individual feedback on their leadership to enable them to exercise more effective leadership. This programme also includes discussion of the Riksbank's fundamental leadership values.

The Riksbank's managers also have access to regular individual tutoring to enable further development of their leadership roles.

EQUALITY AND DIVERSITY

The Riksbank considers that groups consisting of people with different backgrounds and perspectives are more effective than homogenous groups. As a result, it is important to promote greater diversity in many areas, for example as regards gender, age, previous work experience and ethnic/cultural background. All employees are to enjoy equal rights and opportunities as regards terms of employment and development opportunities in their careers.

One objective in the Riksbank's equality process is an even gender distribution pattern. Managers are responsible for ensuring a follow-up is conducted every six months. The proportion of women managers is 48 per cent, and the proportion of women in major projects and working groups is 42 per cent. Both these figures are higher than the goals established previously under which the underrepresented gender is to be not less than 40 per cent.

The Riksbank's established recruitment process which is applied in all new recruitment is a key tool in endeavours to achieve a workplace based on the principle of equality. This process ensures that the most qualified candidate is employed, and that there is no discrimination.

To further highlight equality and diversity issues, these have been discussed by all units in the Bank during the year. These discussions have been led and summarised by the manager concerned, and the results of these discussions have been presented to the Executive Board.

TABLE 5
Absence due to sickness in 2007 (2006), per cent

| | TOTAL | WOMEN | MEN |
|-------|-----------|-------|-----|
| ≤ 29 | 1.3 (1.0) | 2.2 | 0.7 |
| 30-49 | 2.3 (1.9) | 3.6 | 1.3 |
| ≥ 50 | 7.2 (8.7) | 5.1 | 8.8 |
| All | 4.2 (4.5) | 4.1 | 4.2 |

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

Source: The Riksbank.

■ Governance

The Riksbank's Executive Board

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

*Stefan Ingves, term of office six years,
from 1 January 2006*

Stefan Ingves is Governor of the Riksbank and Chairman of the Executive Board. Mr Ingves exercises managerial responsibility for heads of department and is responsible for presenting proposals regarding appointments for posts approved by the Board. 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, Director-General of the Swedish Bank Support Authority, and Under-Secretary and head of the Financial Markets Department at the Ministry of Finance.

*Irma Rosenberg, term of office six years,
from 1 January 2003*

Irma Rosenberg is First Deputy Governor of the Riksbank and has been responsible for presenting proposals for Monetary Policy Reports and for decisions on monetary and foreign exchange policy measures. Ms Rosenberg is the Governor's alternate in the ECB General Council and participates in the BIS Governors' meetings and board meetings, together with the Governor of the Riksbank. Ms Rosenberg has a PhD in economics and has worked as chief economist at the SBAB mortgage institution 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. She worked at the Riksbank from 1976 to 1986.

*Lars Nyberg, term of office six years,
from 1 January 2006*

Lars Nyberg is a Deputy Governor of the Riksbank and has been responsible for presenting draft Financial Stability Reports and proposals for measures to ensure 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 G10's Committee on the Global Financial System and the ECB's Banking Supervision Committee. Mr Nyberg is an associate professor in economics and has previously been Deputy CEO at Svenska Handelsbanken and Föreningsparbanken and CEO at Länsförsäkringsbolagens förening.

*Lars E.O. Svensson, term of office six years,
from 21 May 2007*

Lars E.O. Svensson is a Deputy Governor. He represents the Riksbank in the OECD's Working Party Three. Mr Svensson is a professor at Princeton University (on leave of absence). Previously he was professor at the Institute of International Economics at Stockholm University. He was an economic adviser to the Riksbank from 1990 to 2007.

*Barbro Wickman-Parak, term of office six years,
from 21 May 2007*

Barbro Wickman-Parak is a Deputy Governor. She is the Governor's alternate in the Nordic-Baltic constituency's committee for IMF cooperation. Ms Wickman-Parak is an economist and has previously been chief economist at the SBAB mortgage institution and has many years of experience as an economist at the National Institute of Economic Research and the Sweden Post economic secretariat. She worked at the Riksbank from 1970 to 1985.



Lars E.O. Svensson, Barbro Wickman-Parak, Stefan Ingves, Irma Rosenberg, Lars Nyberg and Svante Öberg.

*Svante Öberg, term of office six years,
from 1 January 2006*

Svante Öberg is a Deputy Governor and has been responsible for presenting proposals regarding consultation opinions involving important issues of principle and for making decisions in other matters relating to consultation documents. Mr Öberg represents the Riksbank on the EU's Economic and Financial Committee and on the ECB's International Committee. He is an economist and, prior to his appointment as a Deputy Governor, he was Director-General 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.

Board members who left their posts during 2007

*Eva Srejber, term of office six years,
from 1 January 2003*

Eva Srejber was First Vice Chairman and First Deputy Governor of the Riksbank. Ms Srejber was responsible for presenting proposals in the asset management area. Ms Srejber was the Governor's alternate representative in the ECB General Council and a member of the EU's Economic and Financial Committee and the ECB's International 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 Föreningssparbanken where she was responsible, among other things, for EMU issues. Eva Srejber resigned her post on 29 March 2007.

*Kristina Persson, term of office six years,
from 1 May 2001*

Kristina Persson was a Deputy Governor and was responsible for presenting proposals concerning strategic information and communications issues. Ms Persson was the Governor's alternate at the IMF and represented 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. Her term of office expired on 30 April 2007.

THE EXECUTIVE BOARD'S ASSIGNMENTS

At its meeting on 11 December, the Executive Board approved changes in the Riksbank's internal instructions regarding management forms within the Bank. This decision, which entered into force on 1 January

2008, underlines the Executive Board's joint responsibility for the Bank's strategic management. At the same time, the Board – in its capacity as the Bank's highest decision-making body – delegated clearer responsibilities to the Governor for leading and monitoring the Bank's administration and management.

The Executive Board's role in strategic decisions has changed as the result of a clearer focus on crucial decisions on monetary and foreign exchange policy, and important issues in the financial stability area and the Riksbank's asset management. The Executive Board also takes the overall decisions in matters on the Riksbank's operations, such as strategic objectives, business plans, budgets and the follow-up of such items. At the same time, the Governor has a clearer assignment to lead the Bank's day-to-day operations, and responsibility for following up the compliance of operations with predetermined plans and budgets.

The new Instructions also mean that the previous special responsibilities which members of the Board had for certain questions have been cancelled, and instead the appropriate head of department is to direct the reporting process and present proposals or documentation to the Board in matters that are to be decided by the Board. A new provision in the Instructions gives the Board the possibility of assigning one or more of the deputy governors to represent the Riksbank in various areas of operations or in specific questions in Sweden or abroad. The Board decided to assign Irma Rosenberg to represent the Riksbank in the monetary and foreign exchange policy areas, and Lars Nyberg was given a corresponding assignment in the financial stability sphere.

The Executive Board makes decisions collectively at its meetings. The Chairman and Vice Chairman of the General Council have the right to attend and speak at Executive Board meetings but are not entitled to make proposals or to vote. Under the Sveriges Riksbank Act, the Riksbank is required to inform the Government prior to all important monetary policy decisions.

The Executive Board in 2007

During 2007, the Board held 25 meetings, seven of which were monetary policy meetings. Members of the Board have held some 100 speeches, of which 34 were published. These speeches dealt with matters such as current monetary policy and the economic

situation, financial stability, and general political and international issues.

During the year, the Executive Board and the General Council visited Budapest and Frankfurt for study purposes and visited the Hungarian central bank, the Hungarian ministry of finance, the European Central Bank and the Deutsche Bundesbank.

Twice a year, the Executive Board presents a written report on monetary policy to the Riksdag Committee on Finance. The most recent Monetary Policy Report has been used as a report to the Riksdag and was supplemented by two public hearings with the Governor by the Committee on Finance.

OTHER ASSIGNMENTS UNDERTAKEN BY MEMBERS OF THE EXECUTIVE BOARD

If a member of the Executive Board wishes to have employment or an assignment in addition to their employments as members of the Executive Board of the Riksbank, this must be approved by the General Council. The following is a list of other assignments undertaken by members of the Executive Board at year-end 2007. They have been approved by the General Council and are reviewed on a bi-annual basis.

Stefan Ingves

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

Lars Nyberg

- Member of the Board of Finansinspektionen.

Lars E.O. Svensson

- Member of the Royal Swedish Academy of Sciences
- Member of Academia Europaea
- Member of the Finnish Academy of Science and Letters
- Member of the American Academy of Arts and Sciences
- Member of the Econometric Society
- Member of the European Economic Association
- Research Associate at the National Bureau of Economic Research
- Research Fellow at the Centre for Economic Policy Research

The General Council

The General Council has 11 members, and the same number of alternates. Members are appointed by the Riksdag after a general election for a term of office of four years. The General Council elects a Chairman and a Vice Chairman from among its members.

Since 17 October 2006, the members of the General Council are: Johan Gernandt (Chairman), Leif Pagrotsky (Vice Chairman), Sinikka Bohlin, Peter Egardt, Susanne Eberstein, Bo Bernhardsson, Elizabeth Nyström, Anders Flanking, Karin Pilsäter, Kjell Nordström, and Ebba Lindsö. The alternate members are Barbro Holmberg, Anne-Katrine Dunker, Carin Lundberg, Stefan Tolstoy, Fredrik Olovsson, Lena Sommestad, Catharina Elmsäter-Svärd, Håkan Larsson, Johan Pehrson, Tommy Waidelich and Per Landgren.

THE GENERAL COUNCIL'S TASKS

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

The General Council is responsible for regular monitoring of the Riksbank's activities and the way in which members of the Executive Board conduct operations. One way 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, among other things, examines the way in which members of the Executive Board perform their duties and the Riksbank's accounting process, with a focus on calculation of the Riksbank's profits. 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, may present proposals to the Riksdag and the Government regarding statutory amendments or other measures within its area of responsibility.

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



Johan Gernandt



Leif Pagrotsky

The General Council in 2007

The General Council met on 16 occasions during 2007. The Chairman and the Vice Chairman monitored the work of the Executive Board during the year, for example as a result of participation in the Executive Board's meetings. Members of the Executive Board normally participated in the General Council's meetings. The Council has received regular reports on activities from the Executive Board. These reports included presentations of current monetary policy, the development and publication of the Riksbank's interest rate forecasts, and monitoring of the financial system. The General Council has also received a final report on the phasing out of the remaining group of subsidiaries and concerning the Board's continued efforts to develop the Riksbank's governance and management structures. Furthermore, the General Council also received information about budgets, operations plans, risk trends, the return on asset management and other outcomes of operations.

In March, the General Council decided to approve Eva Srejber's request for immediate release from her duties, one year and nine months before expiry of the normal term of office. Kristina Persson's assignment as a member of the Executive Board terminated on 30 April, on conclusion of the normal term of office. On 25 April, the General Council appointed Irma Rosenberg as the new First Deputy Governor of the Riksbank, with immediate effect. At the same time, Lars E.O. Svensson and Barbro Wickman-Parak were appointed to be new members of the Board, as from 21 May 2007.



Sinikka Bohlin



Peter Egardt



Susanne Eberstein



Bo Bernhardsson

At its meeting on 2 February, the General Council decided on employment benefits for the Governor of the Riksbank.

During the spring, the General Council submitted a consultation response to the Riksdag Committee on Finance on the evaluation of the Riksbank's monetary policy carried out by Professor Mishkin and Professor Giavazzi, who were commissioned by the Committee on Finance. On two occasions during the year, the Executive Board reported to the General Council on the way the Bank was working on the recommendations in the evaluation. Further reports will be submitted during 2008. During the autumn, the General Council also discussed the consultation response to a report on the Riksbank's financial independence from a commission of enquiry into the Riksbank's capital structure and profit allocation, appointed by the Government and headed by Ingrid Bonde. The Riksbank intends to submit a consultation response to the Ministry of Finance in early 2008. In addition, the General Council presented a consultation opinion to the Riksdag Committee on Finance concerning an amendment to the Sveriges Riksbank Act concerning the term of office for members of the Executive Board. During 2007, four members of the General Council participated in a commemorative coin group established by the Riksbank in which the Director of the Heraldic Section of the National Record Office and representatives of the Royal Academy of Fine Arts, the Royal Coin Cabinet and the National Museum of Fine Arts also participated. The Group is to draft proposals

for designs for the issue of commemorative coins. During the year, the General Council approved the design of a commemorative coin to celebrate the 300th anniversary of the birth of Carl von Linné for issue during 2007, and a coin to celebrate the 150th anniversary of the birth of Selma Lagerlöf for issue during 2008. The General Council also received a report on the coinage procurement process implemented during the year.

At its meeting on 19 December, the General Council decided to replace the letter "E" (to denote Eskilstuna as the place of minting) that was previously stamped on coinage in circulation with an "S" (to denote Stockholm as the place of origin) since Swedish coinage will be minted outside Sweden in the future. At the meetings held in February and April, the General Council discussed whether the Riksbank's collection of banknotes, coins and medals, etc. should be transferred to the Royal Cabinet of Coins and Medals. This transfer was implemented on 1 July in the form of a donation.



Elizabeth Nyström



Anders Flanking



Karin Pilsäter



Kjell Nordström



Ebba Lindsö

At its meeting on 19 December, the General Council approved the new forms for governance and management, as reflected in new Instructions for the Bank as from 1 January 2008. At the same time, the Council decided on certain minor changes in the Riksbank's Rules of Procedure which entered into force on the same date, involving for example a change of name in which the Market Operations Department becomes the Asset Management Department and deletion of the clause on companies owned by the Riksbank.

During the year, the question of the division of responsibilities between the Executive Board and the General Council as regards certain international functions was discussed, and the question of the Council's position in relation to the Riksdag Committee on Finance was also discussed and elucidated.

During the year, the Chairman and Vice Chairman of the General Council presented a report on the Council's work to the Parliamentary Committee on Finance.

During the autumn, the General Council and the Executive Board visited Budapest and Frankfurt to study the Hungarian central bank, the Hungarian ministry of finance, the European Central Bank and the Deutsche Bundesbank. The aim of these visits was, for example, to obtain insights into the workings of a national central bank, both within and outside the European central bank system, and to meet members of the ECB board.

During the year, a new consultant for the General Council's Audit Unit was selected and appointed. The Audit Unit has mainly examined the manner in

which members of the Executive Board discharged their duties, performance of the Board's tasks in accordance with the current Rules of Procedure and Instructions, and the Riksbank's proposals for the allocation of profits. The General Council's Audit Unit also examined the way in which risk management operations are conducted in accordance with the rules for financial asset management, and the functioning of the control system. 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.

Nothing has emerged from the General Council's regular monitoring of the work of the members of the Executive Board which causes the General Council to make criticism of their exercise of their duties.

■ 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 on 21 November 2007 (Ref. no: 2007-715-ADM).

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/2006/16).

CHANGES IN ACCOUNTING PRINCIPLES

On 21 November 2007, the Executive Board adopted a new version of the Rules for Bookkeeping and Annual Accounts at Sveriges Riksbank, which came into effect on 1 December 2007.

The new version mainly reflects the updates made in the accounting guideline of the European System of Central Banks (ECB/2006/16).

However, the changes made do not entail any change of accounting principles.

Basic accounting principles

The following basic accounting principles 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 date.
- 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 the payment was made.
- The recognition of criteria for balance sheet items and for the profit and loss statement 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 valued at the exchange rates and prices applying on the closing day.

Receivables, balances and liabilities are valued 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 exceeds the carrying amount by a significant 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 acquisitions.

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 and 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 received by the Riksbank from the manufacturers both the value of the banknotes and coins in the Riksbank's

stocks and the value of the banknotes and coins that the Riksbank has destroyed and cancelled.

Banknotes and coins in circulation which have ceased to be legal tender are to be transferred to the Profit and Loss Account at the latest when these are no longer redeemed by the Riksbank. However, they should be transferred to the Profit and Loss Account earlier when only a small amount remains to be redeemed.

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 sale, the realised outcome is calculated on the basis of the average cost of acquisition, on the previous day for the holding in question.

Derivative instruments

Derivative instruments are valued contract by contract within each group of derivative instruments. Derivative instrument groups with a positive value are reported as assets and those with a negative value as liabilities.

Foreign exchange forwards and the forward legs of FX swaps are booked at an amount corresponding to the contract's forward amount multiplied by the difference between the exchange rates on the closing day and on the trade date (spot). The difference between the exchange rate on the trade date (spot) and the agreed forward exchange rate is accrued as interest during the term of the contract.

The currency sold is booked on the trade date multiplied by the difference between the exchange rate on the trade date (spot) and the average acquisition rate as reported result.

Interest rate swaps are booked, for both the incoming and outgoing payments, at an amount corresponding to the difference between the nominal amount of the contract and the nominal amount converted to the price on the closing day. The amounts calculated as above are translated into kronor at the exchange rate on the closing day.

Gold options are booked on the trade date at an amount corresponding to the premium paid or received. On the closing day, the book value is adjusted to an amount corresponding to number of ounces in the contract translated to the option price and exchange rate on closing day.

The option price is calculated on the basis of a generally accepted calculation model.

Futures contracts are booked daily as reported result at an amount corresponding to the amount calculated in the daily settlement.

Balance sheet SEK MILLION

| ASSETS | NOTE | 31.12.2007 | 31.12.2006 |
|---|------|----------------|----------------|
| Gold | 1 | 25 827 | 22 222 |
| Claims on residents outside Sweden denominated in foreign currency | | | |
| Claims on IMF | 2 | 4 614 | 4 892 |
| Balances with banks and security investments | 3 | 167 942 | 162 292 |
| | | 172 556 | 167 184 |
| Lending to monetary policy counterparties denominated in Swedish kronor | | | |
| Main refinancing operations | 4 | 7 199 | 6 700 |
| Fine-tuning operations | 5 | 1 787 | 267 |
| Marginal lending facility | 6 | 143 | 121 |
| | | 9 129 | 7 088 |
| Other assets | | | |
| Tangible and intangible fixed assets | 7 | 452 | 483 |
| Financial assets | 8 | 524 | 594 |
| Derivative instruments | 9 | 497 | 379 |
| Prepaid expenses and accrued income | 10 | 2 612 | 2 429 |
| Other assets | 11 | 329 | 306 |
| | | 4 414 | 4 191 |
| Total assets | | 211 926 | 200 685 |
| LIABILITIES AND CAPITAL | NOTE | 2007-12-31 | 2006-12-31 |
| Banknotes and coins in circulation | | | |
| Banknotes | 12 | 108 517 | 106 862 |
| Coins | 13 | 5 807 | 5 518 |
| | | 114 324 | 112 380 |
| Liabilities to monetary policy counterparties in Swedish kronor | | | |
| Deposit facility | 14 | 143 | 121 |
| Fine-tuning transactions | 15 | – | – |
| | | 143 | 121 |
| Liabilities to residents outside Sweden denominated in Swedish kronor | 16 | 82 | 66 |
| Liabilities to residents outside Sweden denominated in foreign currency | 17 | 12 047 | 13 906 |
| Counterpart of Special Drawing Rights allocated by IMF | 18 | 2 517 | 2 540 |
| Other liabilities | | | |
| Derivative instruments | 19 | 17 | 6 |
| Accrued expenses and prepaid income | 20 | 114 | 188 |
| Other liabilities | 21 | 53 | 68 |
| | | 184 | 262 |
| Provisions | 22 | 206 | 276 |
| Revaluation accounts | 23 | 20 081 | 8 488 |
| Equity capital | | | |
| Capital | 24 | 1 000 | 1 000 |
| Reserves | 25 | 57 247 | 53 769 |
| | | 58 247 | 54 769 |
| Result for the year | | 4 095 | 7 877 |
| Total liabilities and equity | | 211 926 | 200 685 |

Memorandum items, see Note 38.

■ Profit and Loss Account SEK MILLION

| | NOTE | 2007 | 2006 |
|--|------|--------------|--------------|
| Interest income | 26 | 7 566 | 6 386 |
| Interest expense | 27 | -1 089 | -826 |
| Net result of financial transactions | 28 | -1 722 | 2 758 |
| Fee and commission income | 29 | 43 | 37 |
| Fee and commission expenses | 30 | -10 | -9 |
| Income from equity | 31 | 131 | 45 |
| Other income | 32 | 33 | 190 |
| Total net income | | 4 952 | 8 581 |
| Staff costs | 33 | -329 | -316 |
| Administration expenses | 34 | -237 | -223 |
| Depreciation of tangible and intangible fixed assets | 35 | -76 | -100 |
| Banknote and coin expenses | 36 | -154 | -65 |
| Other expenses | 37 | -61 | - |
| Total expenses | | -857 | -704 |
| Result for the year | | 4 095 | 7 877 |

Notes

SEK MILJON FIGURES IN PARENTHESES REFER TO 2006.

Note 1 Gold

| | 31.12.2007 | 31.12.2006 |
|-----------------------|-----------------|------------|
| Quantity | | |
| Troy ounces (million) | 4.7827 | 5.0954 |
| Price | | |
| US-dollar/troy ounce | 834.8000 | 636.8000 |
| SEK/US dollar | 6.4688 | 6.8485 |
| Book value | 25 827 | 22 222 |

As of 31 December 2007, the Riksbank holds 4.8 million ounces (troy/oz) of gold, which is equivalent to 148.8 tonnes. During 2007, the Riksbank has sold 0.3 million ounces of gold, which is equivalent to 9.7 tonnes. The Riksbank has also entered into gold option agreements which mature in 2008. See Notes 19 and 38.

Note 2 Receivables from the IMF

| | 31.12.2007 | 31.12.2006 |
|-----------------------------|--------------|------------|
| Special Drawing Rights | 2 621 | 2 645 |
| Reserve Position in the IMF | 1 803 | 2 056 |
| Other receivables | 190 | 191 |
| Total | 4 614 | 4 892 |

The Riksbank holds Special Drawing Rights (SDR) of 257 million (257). An amount corresponding to the SDRs originally allocated by the IMF is reported as a liability. See Note 18.

The Riksbank's reserve position in the IMF is reported on a net basis as its total capital contribution (quota) to the IMF of SEK 24 680 million, SDR 2 395.5 million, and the IMF's account for Swedish kronor of SEK -22 657 million.

The item 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

| | 31.12.2007 | 31.12.2006 |
|----------------------|----------------|------------|
| Balances with banks | 18 106 | 22 332 |
| Security investments | 149 836 | 139 960 |
| Total | 167 942 | 162 292 |

This item consists mainly of foreign government securities and state-guaranteed securities as well as balances with foreign banks, such as time-limited loans and balances in bank accounts.

Bank deposits and securities are denominated in euro, US dollars, UK pounds, Canadian dollars, Australian dollars and Norwegian kronor. The distribution is shown in the following table.

| | 31.12.2007 | 31.12.2006 |
|--------------------|----------------|------------|
| Euro | 76 967 | 81 621 |
| Amerikanska dollar | 60 324 | 43 245 |
| UK pound | 15 089 | 16 545 |
| Canadian dollar | 7 825 | 7 698 |
| Norwegian kronor | 1 | 1 |
| Japanese yen | - | 0 |
| Australian dollar | 7 736 | 13 182 |
| Total | 167 942 | 162 292 |

Note 4 Main refinancing operations

The Riksbank's regular monetary policy repo operations are reported under this heading.

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

| | 31.12.2007 | 31.12.2006 |
|------------------------------------|------------|------------|
| Land and buildings | | |
| Acquisition value, 1 January | 338 | 338 |
| Acquisitions during the year | - | 0 |
| Divestments during the year | -1 | 0 |
| Acquisition value, 31 December | 337 | 338 |
| Acc. depreciation | | |
| 1 January | -116 | -107 |
| The year's depreciation | -9 | -9 |
| Divestments during the year | 0 | 0 |
| Acc. depreciation, 31 December | -125 | -116 |
| Book value | 212 | 222 |
| Machinery and equipment | | |
| Acquisition value, on 1 January | 638 | 577 |
| Acquisitions during the year | 46 | 71 |
| Divestments during the year | -117 | -10 |
| Acquisition value, 31 December | 567 | 638 |
| Acc. depreciation | | |
| on 1 January | -377 | -296 |
| The year's depreciation | -67 | -91 |
| Divestments during the year | 117 | 10 |
| Acc. depreciation, 31 December | -327 | -377 |
| Book value | 240 | 261 |
| Total | 452 | 483 |
| Tax assessment value | | |
| Buildings | - | 3 |
| Land | - | 9 |

The item Land and buildings includes one property, the head office in Stockholm. The conference and holiday facility Baggensnäs was divested in January 2007.

Acquisitions in 2007 include development expenditure regarding a new central payment system of SEK 15 million, system support for the Riksbank's balance of payments statistics of SEK 6 million and PC equipment for SEK 9 million.

The item Book value, machinery and equipment, includes application systems at SEK 125 million (122).

Note 8 Financial assets

| | 31.12.2007 | 31.12.2006 |
|--|------------|------------|
| Shares and participations | | |
| Svensk Kontantförsörjning AB 150 000 shares | - | 61 |
| Tumba Kulturfastigheter AB 1 000 shares | - | 0 |
| Fastighets AB Växjö Lågan 22 1 000 shares | - | 9 |
| SWIFT 35 (45) shares at a par value of EUR 125 | 1 | 1 |
| BIS 17 244 shares at a par value of 5 000 SDR, 25 % of which are paid up | 441 | 441 |
| Europeiska centralbanken 7 % of 2.3313 % (2.4133) of the total capital subscriptions | 82 | 82 |
| Total | 524 | 594 |

In May 2007, the Riksbank sold its shareholding in Fastighets AB Växjö Lågan 22. In June 2007, Svensk Kontantförsörjning AB was dissolved and in December 2007 Tumba Kulturfastigheter AB. Both were dissolved in connection with voluntary liquidation.

As at 1 January 2007, the Riksbank adjusted its percentage share of the European Central Bank to 2.3313 % and the paid-up subscription amount by EUR 414.85.

This took place as a result of the accession of Bulgaria and Romania to the EU.

Note 9 Derivative instruments

| | 31.12.2007 | 31.12.2006 |
|---|------------|------------|
| FX swaps, positive value | 514 | 600 |
| FX swaps, negative value | -25 | -263 |
| Currency forward contracts, positive value | 8 | 42 |
| Total | 497 | 379 |

Derivative instruments with a positive 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:

| | 2007-12-31 | 2006-12-31 |
|---|---------------|---------------|
| FX swaps, positive value | 13 136 | 18 218 |
| FX swaps, negative value | 2 333 | 10 364 |
| Currency forward contracts, positive value | 113 | 1 294 |
| Total | 15 582 | 29 876 |

Note 10 Prepaid expense and accrued income

This item is used to report prepaid expenses and accrued income, of which SEK 2.375 million kronor (2.313) is for accrued bond interest.

Note 11 Other assets

| | 31.12.2007 | 31.12.2006 |
|---|------------|------------|
| Staff loans | 272 | 265 |
| Accounts receivable | 8 | 3 |
| Claim Crane & Co. Inc. | 27 | 26 |
| Transfer payment Tumba Kulturfastigheter AB | 3 | – |
| VAT recoverable | 12 | 12 |
| Balances with banks | 7 | – |
| Other | 0 | 0 |
| Total | 329 | 306 |

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. The distribution payment for Tumba Kulturfastigheter was received on 8 January 2008.

Note 12 Banknotes

The value of banknotes in circulation by denomination:

| | 31.12.2007 | 31.12.2006 |
|------------------------------|----------------|----------------|
| 1 000 kronor | 38 648 | 42 091 |
| 500 kronor | 54 976 | 50 695 |
| 100 kronor | 10 036 | 9 127 |
| 50 kronor | 1 219 | 1 155 |
| 20 kronor | 1 713 | 1 614 |
| Commemorative banknotes | 2 | 2 |
| Invalid banknotes after 1998 | 893 | 902 |
| Invalid banknotes after 2005 | 1 030 | 1 276 |
| Total | 108 517 | 106 862 |

The item Invalid banknotes includes banknotes that are no longer legal tender. However, the Riksbank may redeem these banknotes if there are special reasons for so doing.

Note 13 Coins

The coins in circulation, by denomination:

| | 31.12.2007 | 31.12.2006 |
|---------------------|--------------|--------------|
| 10 kronor | 2 436 | 2 303 |
| 5 kronor | 1 258 | 1 204 |
| 2 kronor | 8 | 8 |
| 1 kronor | 1 278 | 1 209 |
| 50 öre | 171 | 142 |
| Commemorative coins | 656 | 652 |
| Total | 5 807 | 5 518 |

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

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

The distribution of foreign currency deposits is shown in the following table:

| | 31.12.2007 | 31.12.2006 |
|-------------------|---------------|---------------|
| Euro | 195 | 5 194 |
| US dollar | 11 852 | – |
| UK pound | – | 1 978 |
| Canadian dollar | – | 777 |
| Australian dollar | – | 5 957 |
| Total | 12 047 | 13 906 |

Note 18 Counterpart of Special Drawing Rights allocated by the IMF

The Riksbank's liability corresponding to the special drawing rights (SDR) originally granted by the IMF, is reported here. The accumulated amount granted totals SDR 246.5 million (246.5). The current holding of SDRs amounts to SDR 257 million (257), and is reported under the item receivables from IMF. See Note 2.

Note 19 Derivative instruments

| | 31.12.2007 | 31.12.2006 |
|-------------------------------------|------------|------------|
| Gold options, negative value | 4 | 3 |
| Gold options, positive value | 0 | -2 |
| Interest rate swaps, negative value | 13 | 5 |
| Total | 17 | 6 |

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

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

| | 31.12.2007 | 31.12.2006 |
|-------------------------------------|--------------|------------|
| Gold options, negative value | 54 | 87 |
| Gold options, positive value | 54 | 65 |
| Interest rate swaps, negative value | 2 682 | 521 |
| Total | 2 790 | 673 |

Note 20 Accrued expenses and prepaid income

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

Note 21 Other liabilities

| | 31.12.2007 | 31.12.2006 |
|--------------------------|------------|------------|
| Accounts payable – trade | 35 | 42 |
| Other | 18 | 26 |
| Total | 53 | 68 |

Note 22 Provisions

| | 31.12.2007 | 31.12.2006 |
|-------------------|------------|------------|
| Pension liability | 140 | 148 |
| Other provisions | 66 | 128 |
| Total | 206 | 276 |

The pension liability has been calculated by the National Government Employee Pensions Board (SPV), SEK 129 million (136) relates to PA91 pensioners with a date of retirement prior to 2003, and SEK 11 million (12) of which to persons who have been granted a partial pension from 2003 onwards or pension compensation prior to the age of 65.

As of 31 December 2002, the Riksbank redeemed its pension liability for those persons who at this time had employment or were entitled to annuity at the Riksbank.

SPV's board adopted new technical insurance guidelines in December 2007 for calculation of pension liability from and including 2008. According to information from SPV, the pension liability as at 31 December 2007 is expected to increase by 5.1 % if the new guidelines had been applied.

The item Other provisions includes SEK 54 million (57) for estimated future lease costs for the office in Malmö that was 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 5 million (3) is included for funds for competence development and competence exchange which has been set aside in accordance with the agreement with the Job Security Foundation.

Note 23 Revaluation accounts

| | 31.12.2007 | 31.12.2006 |
|----------------------|---------------|--------------|
| Price effect | 2 426 | 435 |
| Exchange rate effect | 5 799 | 701 |
| Gold value effect | 11 856 | 7 352 |
| Total | 20 081 | 8 488 |

With effect from 2004, unrealised gains and losses are reported in special revaluation accounts, which consist of the difference between the acquisition value and the market value. At the beginning of 2004, it was decided that the acquisition values would correspond to market values as at 31 December 2003. If the unrealised losses exceed the unrealised gains at the end of the year, the difference is reported in the profit and loss account. This calculation is made security by security and currency by currency.

The price effect consists mainly of unrealised securities gains. Exchange rate effects are shown in the following table:

| | 31.12.2007 | 31.12.2006 |
|------------------------|--------------|------------|
| Euro | 3 283 | – |
| US dollar | 0 | – |
| UK pound | 0 | 561 |
| Australian dollar | 412 | 52 |
| Canadian dollar | 871 | 88 |
| Special Drawing Rights | – | – |
| Norwegian kronor | 1 233 | – |
| Total | 5 799 | 701 |

Note 24 Capital

The Sverige Riksbank Act states that the Riksbank shall have capital in the amount of SEK 1.000 million.

Note 25 Reserves

| | 31.12.2007 | 31.12.2006 |
|-------------------|---------------|---------------|
| Reserve fund | 500 | 500 |
| Contingency fund | 34 609 | 30 031 |
| Balancing account | 22 138 | 23 238 |
| Total | 57 247 | 53 769 |

The Sverige 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 the 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 2007, a transfer was made from the items write-up of the gold holding and fixed assets to allocation of net revenue at SEK 666 million and SEK 2 million respectively as a result of divestments during the year and amortisation of the written-down 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:

| | 31.12.2007 | 31.12.2006 |
|----------------------------|---------------|---------------|
| Allocation of net revenue: | | |
| Exchange rate effect | 8 982 | 5 446 |
| Gold value effect | 4 155 | 3 663 |
| Other profit allocation | 10 946 | 9 728 |
| Write-up of assets: | | |
| Gold reserve | 10 180 | 10 846 |
| Fixed assets | 111 | 113 |
| BIS shares | 235 | 235 |
| Total | 34 609 | 30 031 |

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 2006 | 1 000 | 53 769 | 7 877 | 62 646 |
| Transfer to the Treasury | | | -4 400 | -4 400 |
| Transfer to/from: | | | | |
| Balancing account | | -1 100 | 1 100 | 0 |
| Contingency fund | | 4 577 | -4 577 | 0 |
| Result for the year | | | 4 095 | 4 095 |
| Rounding off | | 1 | | 1 |
| Balance, 31 December 2007 | 1 000 | 57 247 | 4 095 | 62 342 |

Note 26 Interest income

| | 2007 | 2006 |
|----------------------|--------------|--------------|
| From foreign assets: | | |
| Security investments | 6 063 | 5 320 |
| Balances with banks | 1 174 | 802 |
| Claims on IMF | 145 | 129 |
| Other | 57 | 44 |
| | 7 439 | 6 295 |

| | | |
|-----------------------------|--------------|--------------|
| From domestic assets: | | |
| Main refinancing operations | 114 | 82 |
| Other | 13 | 9 |
| | 127 | 91 |
| Total | 7 566 | 6 386 |

The item securities primarily includes bond interest.

Note 27 Interest expense

| | 2007 | 2006 |
|----------------------------|---------------|-------------|
| From foreign liabilities: | | |
| Deposit repos | -794 | -497 |
| Special Drawing Rights | -102 | -97 |
| Other | -137 | -216 |
| | -1 033 | -810 |
| From domestic liabilities: | | |
| Fine-tuning operations | -4 | -3 |
| Cash deposits | -50 | -11 |
| Other | -2 | -2 |
| | -56 | -16 |
| Total | -1 089 | -826 |

Note 28 Net result of financial transactions

| | 2007 | 2006 |
|----------------------|---------------|--------------|
| Price effect | -747 | -1 270 |
| Exchange rate effect | -1 532 | 3 536 |
| Gold value effect | 557 | 492 |
| Total | -1 722 | 2 758 |

The price effect consists of realised gains and losses on securities of SEK -79 million and unrealised losses on securities of SEK -668 million, which have been transferred to the result due write-down of the securities holding.

The exchange rate effect includes realised exchange rate gains and losses of SEK 580 million and unrealised exchange rate losses of SEK -2 112 million, which have been transferred to result due to the write-down of the foreign currency holding. The realised exchange rate effect includes SEK 473 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 561 million and an unrealised gold option loss of SEK -4 million due to write-down of the gold option holding.

Note 29 Fees and commission income

The item includes annual and transaction charges for the RIX system at SEK 33 million (23) and banknote and coin delivery charges of SEK 10 million (14).

Note 30 Fee and commission expenses

This item mainly consists of expenses for securities custody accounts.

Note 31 Dividends received

During 2007, dividend has been received from the BIS of SEK 46 million (45), Svensk Kontantförsörjning AB of SEK 70 million (0), and from Tumba Kulturfastigheter AB of SEK 15 million (0). The dividend from Svensk Kontantförsörjning AB and SEK 3 million of the dividend from Tumba Kulturfastigheter AB have been received in the form of a distribution payment in connection with voluntary liquidation. On liquidation, write-down of the shares was reported under the item Other expenses, see Note 37.

Note 32 Other income

The item Other income includes SEK 26 million (0) for the sale of Baggensnäs. Furthermore, SEK 3 million (50) is included for the sale of damaged coin. The remaining SEK 4 million includes the sale of commemorative coins, SEK 1 million (0), and payment from SIDA (Swedish International Development Cooperation Agency) for staff on loan, SEK 1 million (1).

Note 33 Staff costs

| | 2007 | 2006 |
|-----------------------------|-------------|-------------|
| Salaries and benefits | -196 | -198 |
| Salary recorded as assets | 5 | 5 |
| Social security charges | -66 | -68 |
| | -257 | -261 |
| Pension premiums | -31 | -26 |
| Pension payments | -25 | -21 |
| Change in pension liability | 8 | 12 |
| Special wages tax | -10 | -9 |
| | -58 | -44 |
| Training | -6 | -5 |
| Staff representation | -2 | -1 |
| Other | -6 | -5 |
| | -14 | -11 |
| Total | -329 | -316 |

Pension premiums have been paid in accordance with the pension agreements for central government employees and others, PA 03 and PA 91.

The item pension payments refers to payments to pensioners retiring before 2003, and to persons who have been granted a part pension from 2003 onwards or who have been granted a pension before the age of 65.

Salaries and benefits to the members of the Executive Board amounted to SEK 13.6 million in 2007, broken down as follows:

| | 2007 | 2006 |
|-------------------------------|-------------|-------------|
| Stefan Ingves | 1.7 | 1.5 |
| Lars Nyberg | 1.8 | 1.8 |
| Irma Rosenberg | 1.9 | 1.7 |
| Lars E.O. Svensson | 1.3 | - |
| Barbro Wickman-Parak | 1.1 | - |
| Svante Öberg | 1.8 | 1.7 |
| Eva Srejber | 0.5 | 1.9 |
| Kristina Persson | 0.6 | 1.7 |
| Qualification period salaries | 2.9 | 0.6 |
| Total | 13.6 | 10.9 |

In addition, the Governor of the Riksbank received a board fee of SEK 0.5 million (0.6) from the Bank for International Settlements in 2007.

The item Qualification period, salaries, refers to Eva Srejber, SEK 0.8 million and Kristina Persson, SEK 2.1 million, of which SEK 0.8 million is for 2008.

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.

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 from 1991 shall apply to persons covered by the regulations that were rescinded on 31 December 1996 on appointment pensions etc.

The Ordinance on Pensions for Senior Government Officials (1995:1038) has been rescinded, and replaced on 1 April 2003 by the Ordinance (2003:55) on Severance Benefits for Certain Employees employed as senior government officials. Under this ordinance, the new provisions shall apply from 1 January 2003. However, the provisions in the Ordinance on Pensions for Senior Government Officials shall still be applied to the person holding such a position on 31 December 2002, if that persons continues his employment without interruption. Furthermore, the provisions in the earlier rescinded legislation on Appointment Pensions, etc. still apply to those previously covered by these provisions.

This means that that Svante Öberg is covered by the older Ordinance (1991:1160) on Pensions for Appointed Government Employees. Lars Nyberg is covered by the older Ordinance on Pensions for Senior Government Officers (1995:1038). Irma Rosenberg, Barbro Wickman-Parak and Lars E.O. Svensson are covered by the Ordinance (2003:55) on Severance Payment for Certain Employees with Senior Government Posts. The same Ordinance applies to Stefan Ingves with the exception of the reduction of the income guarantee for pension from the IMF.

Furthermore, according to the present arrangements, Stefan Ingves may also receive a pension from the BIS. This is paid to board members who have served on the board of the BIS for at least four years, but first when they attain the age of 65. The pension is calculated on the basis of paid board fees and totals 1.82 per cent of these fees.

The average number of employees (full time equivalents, FTEs) in 2007 totalled 372 (404) of which 160 (179) were women and 212 (225) men. The number of FTEs at the end of the year was 364 (376).

Sick leave in 2007 was 4.2 per cent (4.5) of the employees' total working hours. Sick leave over a continuous period of 60 days or more was 78.1 per cent (69.6) of the total sick leave.

Women's sick leave in relation to the total regular working hours for women amounted in 2007 to 4.1 per cent (4.6) while the corresponding figure for men was 4.2 per cent (4.4).

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

| | 2007 | 2006 |
|---------------|-------|-------|
| 29 or younger | 1.3 % | 1.0 % |
| 30 – 49 | 2.3 % | 1.9 % |
| 50 or older | 7.2 % | 8.7 % |

Note 34 Administration expenses

| | 2007 | 2006 |
|---------------------------------|------|------|
| Information, hospitality | -13 | -9 |
| Transport, travel | -12 | -13 |
| Consultancy assignments | -40 | -42 |
| Other external services | -41 | -31 |
| IT operation | -61 | -53 |
| Economics prize | -16 | -18 |
| Office and property maintenance | -49 | -51 |
| Other | -5 | -6 |
| Total | -237 | -223 |

Information expenses include costs for the Riksbank's regular publications, such as the Monetary Policy Report, Financial Stability Report and Annual Report.

Costs for hospitality amounted to SEK 3.0 million (1.4). This increase is partly due to the Riksbank having been the host for an international meeting within the framework of the Economic and Financial Committee (EFC) and a Nordic financial crisis exercise. In addition, SEK 1 million is included for the Nobel Foundation's Museum Association for financing of core information relating to the Economics Prize which was reported last year under the heading Economics Prize.

The item Transport, travel includes the cost for the Riksbank's transport of banknotes and coin as well as travel costs.

Consultancy expenses totalled SEK 40 million (42). This includes consultancy expenses for operation and maintenance of the RIX payment system of SEK 7 million.

The largest single item in Other external services is statistics deliveries of SEK 30 million (22). The increase in costs is partly due to transfer of the production of balance of payments statistics to Statistics Sweden.

The item IT operations includes licensing expenses of SEK 39 million (30).

The increase in costs is partly due to increased costs for the mainframe computing environment and the asset management system Dimension.

The Economics Prize item includes the prize amount of SEK 10 million and administration costs for this prize of SEK 6.5 million.

The largest single items in the cost group office and property maintenance cost consist of refurbishment of the Riksbank's premises, SEK 13 million (15), and SEK 12 million (12) for rent of premises.

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 154 million (65), SEK 33 million (6) is in respect of the purchase of banknotes, SEK 114 million (54) the purchase of circulation coins and SEK 7 million (5) the purchase of commemorative coins.

Note 37 Other expenses

The item Other expenses refers to the write-down of shares in Svensk Kontantförsörjning AB at SEK 61 million and write-down of shares in Tumba Kulturfastigheter AB at SEK 0.1 million. These write-downs were made in connection with the companies being wound up by voluntary liquidation. The distribution payments amounted to SEK 70 million and SEK 3 million respectively, which have been reported under the item Dividends received. See Note 31.

Note 38 Memorandum items*Assets pledged*

Securities with a market value of SEK 14 104 million (13 572) have been pledged in connection with the foreign securities repos.

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), which is equivalent to SEK 8 679 million (8 757).

Undertaking to pay the BIS, three months after a demand to that effect, 75 per cent of the nominal value of the Riksbank's shareholding in the BIS. This undertaking corresponded to SDR 65 million (65), at the end of 2007, which is equivalent to SEK 664 million (660).

The nominal value of outstanding FX swap agreements, the book value of which is shown in Note 9, totalled SEK 15 469 million (28 582).

The nominal value of outstanding currency forward agreements, the book value of which is shown in Note 9, totalled SEK 113 million (1 294).

The nominal value of outstanding interest swap agreements, the book value of which is shown in Notes 9 and 19, totalled SEK 2 682 million (521).

The nominal value of outstanding gold option contracts, the book value of which is shown in Note 19, totalled SEK 108 million (152).

A capital adequacy guarantee for Pengar i Sverige AB was dissolved on 15 June 2007 in connection with voluntary liquidation of the company.

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 expenses for this prize. This undertaking amounted in 2007 to SEK 16 million (18).

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

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. This undertaking refers to personnel transferred from the Riksbank to AB Tumba Bruk (now Crane AB) in 1971.

■ The Riksbank's administrative expenses broken down by core functions

| AREA OF ACTIVITIES | 2007 | SHARE | 2006 | SHARE |
|-------------------------------------|------------|--------------|------------|--------------|
| Monetary policy | 187 | 24 % | 176 | 25 % |
| Financial stability | 85 | 11 % | 72 | 10 % |
| Payment system | 82 | 10 % | 86 | 12 % |
| Cash management | 251 | 32 % | 175 | 25 % |
| Asset management | 88 | 11 % | 95 | 13 % |
| Statistics | 65 | 8 % | 62 | 9 % |
| Other international collaboration | 17 | 2 % | 15 | 2 % |
| General Council and Economics Prize | 21 | 2 % | 23 | 4 % |
| Total | 796 | 100 % | 704 | 100 % |

The table shows the Riksbank's administrative expenses broken down by core functions.

The shares shown do not aim to be exact but should reflect the actual use of resources for each core function as accurately as possible.

The principle used is for costs to be allocated to the respective core function without use of any index for distributing overheads. To support this, the Riksbank introduced process accounting during 2006, where costs are specified to the respective core function already at the time of invoicing. At the same time, the Riksbank has a large amount of common costs which cannot be directly allocated to a core function. These costs have been allocated to the respective core function with the aid of indices for distributing overheads.

The allocation principles are explained below item by item. The allocation model is based on the arrangement of the profit and loss account, where the Riksbank's administrative expenses for 2007 amount to SEK 796 million (see the table below). As a first step, the IT Department's costs (IT expenses) of SEK 175 million have been reduced from each of the profit and loss account items. This has been done in order for the IT expenses to be allocated to the correct core functions based on the support of services and systems provided by the IT Department.

THE RIKSBANK'S ADMINISTRATIVE EXPENSES

| | 2007 | 2006 |
|----------------------------|------------|------------|
| Staff costs | 329 | 316 |
| Administration expenses | 237 | 223 |
| Depreciation | 76 | 100 |
| Banknote and coin expenses | 154 | 65 |
| Total | 796 | 704 |

Staff costs excluding IT staff

Staff costs for, in particular, the policy departments have been allocated to the respective core functions on the basis of the number of staff (FTEs) which are directly involved in the core functions. The assessment of the staff which can be directly allocated to a core function has been made by the management of each department. In all, around 240 members of staff (65% of a total of 380) are directly involved in one of the seven core functions. The remaining 140 members of staff are located in the support functions, for example, IT, transport & security surveillance, property and internal service. The costs for these members of staff (excluding IT staff) have been allocated with the aid of an index for distributing overheads based on the relationship between the number of directly active staff members per core functions in relation to the total number of directly active staff members in all core function.

Administration expenses, excluding IT expenses

During 2006, the Riksbank introduced process accounting, which means that administrative expenses are directly recorded in relation to each core function at the time of registration of invoices. The goal is for expenses to be allocated directly to the core function they pertain to without using any distribution key.

However, a large part of the Riksbank's total costs are common expenses, for instance, premises, property maintenance, security and surveillance. These cannot be allocated directly but have to be allocated with the aid of pre-defined keys, most often consisting of a number of staff members per core function, who are directly involved, in relation to the total number of directly involved staff members in all core functions.

Depreciation, excluding IT-related investments

Depreciation is directly allocated to the core functions which is supported by the respective facility. This is not complicated when it concerns, for instance, banknote machines, but, in many cases, it involves common investments such as property, security and inventories. These have mainly been allocated on the basis of the number of directly involved staff members per core function in relation to the total number of directly involved staff members in all core functions.

Banknote and coin expenses

The Riksbank has a high level of costs for purchasing new banknotes and coins. These totalled SEK 154 (65) million in 2007. These costs have been allocated to the cash management function.

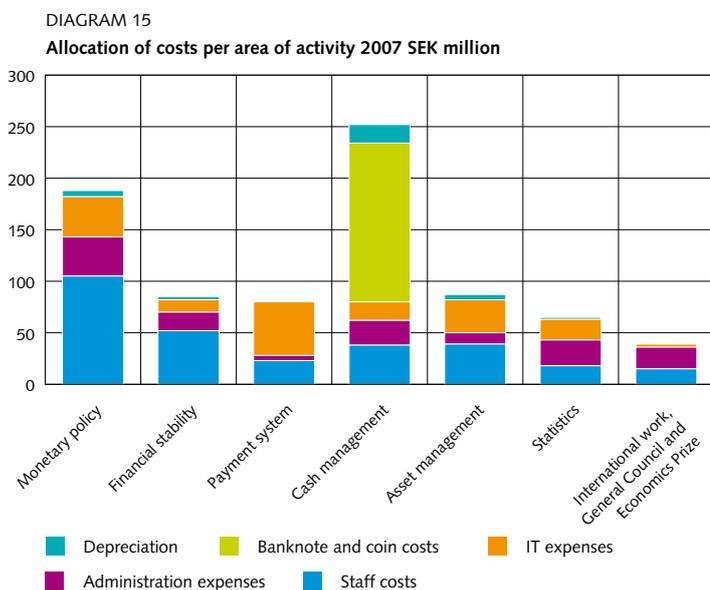
IT expenses

The bank's IT expenses are an important and complicated part of the allocation of costs. The Riksbank currently administers around 70 IT systems. This model is based on the allocation of four major IT services: telephony, PC services, licences and IT systems. Telephones and PC services are allocated to users with commonly agreed prices for telephones, mobile telephones and PCs. The large activity licences, in particular financial information services, are allocated to the respective licensee at the actual price.

The Riksbank's process reporting and the IT Department's time reporting per system mean that we can identify direct expenses per IT system. In addition to this, the department has calculated the number of servers that serve every IT system, which multiplied by a calculated server price together with the direct expenses produces a total price per IT system. The costs for each IT system have then been allocated to the core functions supported by the system. In certain cases, a system supports several core functions. In these cases, the costs have been allocated by mutual agreement.

For many systems, which are common to the bank as a whole, the costs are allocated to the respective core functions in relation to the number of directly involved members of staff per core function in relation to the total number of directly involved members of staff in all core functions.

If a surplus or deficit arises after allocation of the IT expenses, due to a calculated server price deviating from the actual outcome of expenses, this surplus or deficit will be allocated in relation to the share of IT expenses per core function in relation to the total allocated IT expenses.



Source: The Riksbank

Five-year overview

SEK MILLION

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

| Balance sheet | 31.12.2007 | 31.12.2006 | 31.12.2005 | 31.12.2004 | 31.12.2003 |
|--|----------------|----------------|----------------|----------------|----------------|
| Assets | | | | | |
| <i>Guld</i> | 25 827 | 22 222 | 22 235 | 17 393 | 18 030 |
| <i>Claims on residents outside Sweden in foreign currency</i> | | | | | |
| Receivables from IMF | 4 614 | 4 892 | 5 729 | 10 148 | 12 241 |
| Balances with banks and security investments | 167 942 | 162 292 | 167 429 | 135 108 | 129 031 |
| | 172 556 | 167 184 | 173 158 | 145 256 | 141 272 |
| <i>Lending to monetary policy counterparties in Swedish kronor</i> | | | | | |
| Main refinancing transactions | 7 199 | 6 700 | 9 600 | 17 000 | 23 800 |
| Fine-tuning operations | 1 787 | 267 | - | - | - |
| Lending facility | 143 | 121 | 1 | 2 | 0 |
| | 9 129 | 7 088 | 9 601 | 17 002 | 23 800 |
| <i>Other assets</i> | | | | | |
| Tangible and intangible fixed assets | 452 | 483 | 512 | 538 | 509 |
| Financial assets | 524 | 594 | 410 | 324 | 382 |
| Derivative instruments | 497 | 19 | - | - | - |
| Prepaid expenses and accrued income | 2 612 | 2 429 | 2 183 | 1 963 | 2 005 |
| Other assets | 329 | 306 | 305 | 294 | 291 |
| | 4 414 | 4 191 | 3 613 | 3 205 | 3 129 |
| Total assets | 211 926 | 200 685 | 208 607 | 182 856 | 186 231 |
| Liabilities and capital | | | | | |
| <i>Banknotes and coins in circulation</i> | | | | | |
| Banknotes | 108 517 | 106 862 | 105 516 | 103 452 | 103 675 |
| Coins | 5 807 | 5 518 | 5 559 | 5 442 | 5 265 |
| | 114 324 | 112 380 | 111 075 | 108 894 | 108 940 |
| <i>Liabilities to monetary policy counterparties in Swedish kronor</i> | | | | | |
| Deposit facility | 143 | 121 | 23 | 86 | 49 |
| Fine-tuning operations | - | - | 227 | 527 | 491 |
| | 143 | 121 | 250 | 613 | 540 |
| <i>Liabilities to residents outside Sweden in Swedish kronor</i> | | | | | |
| | 82 | 66 | 94 | 306 | 125 |

Cont.

| Balance sheet | 31.12.2007 | 31.12.2006 | 31.12.2005 | 31.12.2004 | 31.12.2003 |
|--|----------------|----------------|----------------|----------------|----------------|
| <i>Liabilities to residents outside Sweden in foreign currency</i> | | | | | |
| | 12 047 | 13 906 | 10 159 | 4 912 | 998 |
| <i>Counterpart of SDRs allocated by the IMF</i> | | | | | |
| | 2 517 | 2 540 | 2 797 | 2 537 | 2 647 |
| <i>Other liabilities</i> | | | | | |
| Derivative instruments | 17 | 6 | 1 | 85 | 16 |
| Accrued expenses and prepaid income | 114 | 188 | 111 | 100 | 81 |
| Other liabilities | 53 | 68 | 82 | 69 | 71 |
| | 184 | 262 | 194 | 254 | 168 |
| Provisions | 206 | 276 | 289 | 304 | 396 |
| Revaluation accounts | 20 081 | 8 488 | 23 680 | 1 523 | - |
| <i>Equity capital</i> | | | | | |
| Capital | 1 000 | 1 000 | 1 000 | 1 000 | 1 000 |
| Reserves | 57 247 | 53 769 | 55 813 | 65 317 | 80 697 |
| | 58 247 | 54 769 | 56 813 | 66 317 | 81 697 |
| <i>Result for the year</i> | <i>4 095</i> | <i>7 877</i> | <i>3 256</i> | <i>-2 804</i> | <i>-9 280</i> |
| Total liabilities and equity | 211 926 | 200 685 | 208 607 | 182 856 | 186 231 |
| Profit and Loss Account | | | | | |
| Interest income | 7 566 | 6 386 | 5 421 | 4 778 | 5 316 |
| Interest expense | -1 089 | -826 | -320 | -290 | -121 |
| Net result of financial transactions | -1 722 | 2 758 | -1 116 | -6 317 | -13 287 |
| Fee and commission income | 43 | 37 | 45 | 19 | 18 |
| Fee and commission expenses | -10 | -9 | -7 | -9 | -8 |
| Income from equity | 131 | 45 | 43 | 42 | 185 |
| Other income | 33 | 190 | 10 | 24 | 5 |
| Total net income | 4 952 | 8 581 | 4 076 | -1 753 | -7 892 |
| Staff costs | -329 | -316 | -308 | -309 | -323 |
| Administration expenses | -237 | -223 | -249 | -231 | -228 |
| Depreciation of tangible and intangible fixed assets | -76 | -100 | -84 | -69 | -72 |
| Banknote and coin expenses | -154 | -65 | -179 | -160 | -244 |
| Other expenses | -61 | - | - | -282 | -521 |
| Total expenses | -857 | -704 | -820 | -1 051 | -1 388 |
| Result for the year | 4 095 | 7 877 | 3 256 | -2 804 | -9 280 |

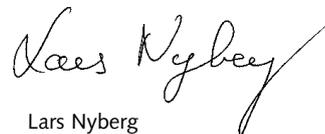
Stockholm, 7 February 2007



Stefan Ingves
Governor



Irma Rosenberg
First Deputy Governor



Lars Nyberg
Deputy Governor



Lars E.O. Svensson
Deputy Governor



Barbro Wickman-Parak
Deputy Governor



Svante Öberg
Deputy Governor

■ Proposal for the allocation of profits for 2007

The Riksdag approved in connection with its consideration of the Riksbank's management for the year 2006 (2006/07 FiU23) that the allocation of profits for 2006 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 applies the same basis for calculation for the year 2007.

Pursuant to Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council has received a report for the financial year 2007 from the Executive Board. The General Council observes that the Riksbank with the application of the current accounting principles reports a profit for 2007 amounting to SEK 4 095 million. In accordance with the 1988 principle of allocation of profits and the supplements to the principle made since then, the following adjustments are made to the reported profits when calculating the result used as a basis for the transfer:

1. The reported result has been negatively affected by an exchange rate loss of SEK 1 532 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 profit of SEK 557 million as a result of sales of gold during 2007. The General Council has, in accordance with the earlier decided supplement to the principle of profit allocation, excluded this profit when calculating the allocation of the profits.

3. An unrealised price effect loss of SEK 1 991 million is not included in the reported result because of the change in accounting principles that came into force in 2004. The General Council has included this loss when calculating the allocation of profits, in accordance with the principle applied.

The General Council proposes as described below a transfer to the Treasury of SEK 3 600 million.

As the proposed transfer is lower than the profits reported for the year, it is proposed that SEK 531 million be transferred to the contingency fund and SEK 1 026 million be transferred from the balancing account. The basis used for calculating the proposal for the allocation of profits is shown in the appendix.

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 profit before appropriations for 2007 amounts to SEK 4 095 million and the General Council decided on 8 February 2007 to submit the following proposal for the allocation of the Riksbank's profits:

| SEK million | |
|---|--------|
| Transfer from the Riksbank's contingency fund | 531 |
| Transfer to the Riksbank's balancing account | -1 026 |
| Transfer to the Treasury | 3 600 |

The transfer should be made no later than one week after the Riksdag's decision, most appropriately in connection with the Riksbank's implementation of the weekly open market operation.

■ 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 7 February 2008, for the financial year 2007. 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. The aim of the examination is to assess 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.

It is the opinion of Riksrevisionen that the audit gives reasonable and appropriate 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 bookkeeping 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 picture 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 2007.

The decision was made by Filip Cassel, Audit Director. The audit was presented by Anders Herjevik, Audit Director.

Filip Cassel *Anders Herjevik*

■ The Riksbank's consultation work

Every year, the Riksbank makes responses to a large number of consultation documents. The Executive Board has so far delegated to a Deputy Governor of the Riksbank the responsibility to prepare those 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 has been 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 referral statements are usually submitted by the Deputy Governor who leads this work. Statements which involve important matters of principle or are otherwise of great importance for the Riksbank are dealt with by the Executive Board instead. Matters within the General Council's area of activities are dealt with by that body. The procedure for consultation work will change with effect from 1 January 2008 as a result of the Executive Board's decision of 11 December on changed forms of management.

During 2007, consultation work has been dominated by two referral statements that are of key importance for the Riksbank, the evaluation of Swedish monetary policy 1995-2005 and the commission on the financial independence of the Riksbank. These two consultations have concerned important areas of principle for the Riksbank. The General Council and the Executive Board responded to the consultation on monetary policy on 22-23 February 2007 and intend to respond to the consultation on the Riksbank's financial independence during February 2008. The General Council has also responded to a consultation on proposed amendments to the Sveriges Riksbank Act regarding the period of office of members of the Executive Board. Otherwise, most consultations have concerned matters relating to regulation within the financial sector. This has largely concerned proposals on introducing EU rules in Swedish legislation or in regulations from the Financial Supervisory Authority, in Finansinspektionen.

The following responses to consultations were submitted by the Executive Board of the Riksbank during 2007. Unless otherwise stated, decisions have been made by Deputy Governor Svante Öberg who was responsible for responses to consultations.

MINISTRY OF FINANCE

16.10.2007

Comments on the Swedish National Debt Office's proposed guidelines for central government debt management

01.10.2007

Comments on the "Green Paper on Retail Financial Services in the Single Market"

30.08.2007

Comments on Permitted assets in mutual funds and related matters (Ds 2007:23)

23.08.2007

Comments on the Ministry of Finance's memorandum on supplementary provisions to the EC regulation on information on the payer accompanying transfers of funds

17.08.2007

Comments on the memorandum on Electronic submission for certain financial undertakings and related matters, etc.

02.08.2007

Comments on the consultation document by the Ministry of Finance on the possibility of a temporary reduction of fees for the deposit guarantee. A decision on this matter has been made by the Executive Board of the Riksbank.

02.07.2007

Comments on the consultation document Government credit guarantees to facilitate acquisition of tenant-owned and owner occupied housing (known as acquisition guarantees). A decision on this matter has been made by the Executive Board of the Riksbank.

19.06.2007

Comments on the report Implementation of the third money laundering directive (SOU 2007:23)

14.03.2007

Comments on the memorandum Reinsurance

14.02.2007

Comments on the Ministry of Finance's consultation document on market abuse legislation and share-related incentive programmes

FINANSINSPEKTIONEN

04.12.2007

Comments on second referral for consultation of proposed amendments to the accounting regulations

12.11.2007

Comments on consultation document on amendments to the accounting regulations

06.11.2007

Comments on consultation document on amendments to the accounting regulations on the reporting of quarterly and closing data

05.06.2007

Comments on consultation document on amendments to the accounting regulations

05.05.2007

Comments on consultation document on proposed regulations on security for pension undertakings

11.05.2007

Comments on consultation document on proposed regulations on consideration of ownership and management

29.03.2007

Comments on Finansinspektionen's consultation document on Amendments to the accounting regulations on reporting of quarterly and closing data

23.02.2007

Comments on the consultation document Trading with government bonds

RIKSDAG COMMITTEE ON FINANCE

26.10.2007

Comments on the memorandum on amendment of the Sveriges Riksbank Act (1988:1385) regarding the term of office for members of the Executive Board of the Riksbank. A decision on this matter has been made by the General Council of the Riksbank.

23.02.2007

Consultation response of the General Council to the report "An Evaluation of Swedish Monetary Policy between 1995 and 2005". A decision on this matter has been made by the General Council.

22.02.2007

Consultation response by the Executive Board to the report "An Evaluation of Swedish Monetary Policy between 1995 and 2005". A decision on this matter has been made by the Executive Board.

MINISTRY OF DEFENCE

21.12.2007

Comments on an excerpt from the report Crisis management at the Government Offices – a proposed supplementary secrecy provision in the sphere of crisis management

MINISTRY OF JUSTICE

02.05.2007

Comments on the consultation document on Cross-border mergers (Ds2006:22)

25.01.2007

Comments on the Ministry of Justice's consultation document on the memorandum Registration of subordinated contributions

THE SWEDISH EMERGENCY**MANAGEMENT AGENCY**

03.09.2007

Comments on the Swedish Emergency Management Agency's report on The focus of training and exercise activities in the sphere of emergency preparedness and related matters.

MINISTRY OF ENTERPRISE, ENERGY AND**COMMUNICATIONS**

06.11.2007

Comments on the consultation document on reporting time and frequency N2007/5409/FIN as a completed part of the commission report on the review of regulation, extent, responsibility, funding etc. relating to legal metrology, traceable time and frequency and national measurement locations (Committee Terms of Reference 2006:106)

19.02.2007

Comments on the memorandum State responsibility for certain paid services

MINISTRY FOR FOREIGN AFFAIRS

14.03.2007

Comments on the consultation document of review of guidelines for the Export Credits Guarantee Board

14.03.2007

Comments on the consultation document "Tackling poverty. The new role of loans and guarantees in Swedish bilateral development assistance." (SOU 2006:108)

 **Publications**

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

MONETARY POLICY REPORT

The Monetary Policy Report is published three times a year. The report forms a basis for monetary policy decisions. Publishing this report makes the Riksbank's assessments generally accessible, which will stimulate interest in and facilitate understanding of monetary policy.

THE FINANCIAL STABILITY REPORT

The Financial Stability Report is published 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

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

THE ANNUAL REPORT

The Annual Report provides an account of the Riksbank's activities during the past year. It also contains the Riksbank's annual accounts.

THE WORKING PAPER SERIES

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

PUBLICATIONS FROM THE EUROPEAN**CENTRAL BANK, ECB****ON THE WEBSITE**

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 the meetings of the Executive Board and the General Council on its website.

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Glossary

Settlement Transfer of money or securities from one party to another, usually from one account to another account.

Gross settlement A settlement system where payments are intermediated and settled in real time (continuously) as the orders are received. See also netting.

Balance of payments The statistical reporting of a country's economic transactions with the rest of the world. Consists of the current account and the capital account and the total is always zero, i.e. payments are in balance. See also current account and capital account.

Payment system The accounts, regulations and computer systems needed to execute payments and transfer securities between different parties.

BIS, Bank for International Settlements The central banks' bank with deposits and lending to these. Owned by 55 central banks, including the Riksbank.

GDP, gross domestic product The aggregate value of the goods and services for final use produced in a country during a year.

Balance on current account Statistical reporting that shows a country's transactions with the rest of the world relating to trade with goods and services, wages, return on capital and current transfers such as EU contributions. The balance on current account is part of the balance of payments.

Central bank Responsible for issuing banknotes and acts as the banks' bank. Also responsible for monetary policy, i.e. changing the interest rate to maintain price stability. The Riksbank is Sweden's central bank. Central banks may also have other duties in other countries such as being responsible for financial supervision or management of the central government debt.

Clearing Settlement of sellers and purchasers payments to one another.

Overnight loan Loans from one banking day to the next which the banks or other financial institutions provide to one another. Banks can also borrow or invest at the Riksbank for a single day.

Overnight loan market The market where, in particular, banks can invest or borrow from a day up to a week.

Overnight loan interest rate The interest rate that market participants pay or receive if they borrow or deposit from one day to the next. The overnight loan interest rate is the shortest market rate.

Duration A measure of how sensitive the value of an interest-bearing security is to changes in the interest rate level. The higher the duration, the more sensitive value. States how many per cent the price of the security changes when the interest rate changes by one percentage point.

ECB, The European Central Bank The common central bank for the fifteen EU member states which have adopted the euro. The ECB has its head office in Frankfurt. The task of the bank is to conduct monetary policy for these countries and ensure that inflation is low.

ECB General Council Consultative body within the European Central Bank (ECB) consisting of the heads of all EU central banks (also those which have not introduced the euro) and the President and Vice-president of the ECB.

Ecofin Council Body within the Council of the European Union consisting of the EU finance and economics ministers. Every year, they prepare and adopt, together with the European Parliament, the European Union's budget of around EUR 100 billion.

EFC, The EU Economic and Financial Committee Advisory body to Ecofin and the European Commission. Monitors, among other things, economic and financial developments in the EU and the euro area and examines the stability and convergence programs of the Member States.

EMU, Economic and Monetary Union Collaboration to co-ordinate the economic policy of the Member States and establish a currency union with a common currency (euro), common central bank (European Central Bank) and common currency and monetary policy. All EU member states participate in EMU although some of the countries, including Sweden, have not introduced the common currency and therefore neither the common monetary policy.

ERM2, EU exchange rate mechanism Mechanism by which the EU Member States that have not introduced the common currency can link their currencies to the euro. Every currency is given a central exchange rate for the euro with a range within which the exchange rate may vary. The normal variation range from the central rate is plus or minus 15 per cent.

Euro Currency in the EU Member States that have introduced the single currency and which take part in the single monetary policy under the leadership of the European Central Bank (ECB).

Financial markets Markets where financial assets are bought and sold. The financial markets in Sweden are the stock, fixed income and FX market.

Financial system Consists of banks and other undertakings, market places and infrastructure with laws and regulations. Through this system, people are able to pay, save money which others can borrow and receive assistance in managing risks that can arise on the financial markets.

Finansinspektionen (the Swedish financial supervisory authority) Central government agency with the task of monitoring the activity for banks, credit market companies, securities companies, securities brokers, fund management companies, stock exchanges, authorised trading places, clearing organisations and insurance brokers.

Riksdag Committee on Finance Riksdag (Parliamentary) committee that prepares matters relating to economic issues including the activities of the Riksbank and the state budget.

Gold and foreign currency reserves Sweden's reserves of gold and securities in foreign currency managed by the Riksbank. This buffer can be used to defend the value of the Swedish krona and to provide emergency credits to solvent banks which encounter difficulties.

G10, Group of Ten Forum for international economic collaboration. Despite the name, it consists of eleven countries: Belgium, Canada, France, Germany, Italy, Japan, The Netherlands, Sweden, Switzerland, UK and the US. Plays an active role in the work of BIS on developing financial standards. See BIS, Bank for International Settlements.

Trade balance Part of current account showing the value of a country's export and import of goods. If the country exports more than it imports, a surplus arises and vice versa.

IMF, International Monetary Fund Body that works for the stability of the global financial system and to avoid international crises. Makes an annual analysis of the economic development of the over 180 member states, monitors economic and financial stability and lends money.

Inflation General price increases which lead to a reduction in the value of money, i.e. fewer goods and services can be bought for the same amount of money. The opposite is deflation.

Inflation measure Several different measures exist:
Consumer Price Index (CPI) Average price development for private consumption.
Underlying inflation (CPIX) CPI excluding household mortgage interest expenditure and the direct effects of changed indirect taxes and subsidies.
Harmonised Consumer Price Index (HICP) A harmonised index used in the EU. Consist of CPI excluding mortgage interest expenditure, tenant owner fees, lotteries, pools and toto among other things. HICP also includes certain expenses which are not at present included in CPI, for instance, childcare charges.

Information ratio Measures a portfolio's relation between return in relation to its comparative index and its active risk to show whether active management has been profitable. A ratio above zero shows that the management has been profitable.

Deposit guarantee Government guarantee for accounts at banks and other financial institutions with a period of notice of less than a month. If the institution becomes bankrupt, the state will pay out up to SEK 250,000 per customer and institution.

Consumer Price Index, CPI Average price development for private consumption. Measured by Statistics Sweden (SCB) every month. The Riksbank uses CPI as one of several measures of inflation. See inflation measure.

Market operations Interest rate or currency transactions carried out by a central bank in order to influence interest rates or currencies, in other words transactions with a monetary policy or currency policy aim.

Money market The part of the credit market that relates to loans and investments with a shorter term than a year.

Monetary policy Changing the interest rate to affect inflation.

Price stability Condition where prices of goods and services only change moderately or not at all. According to the Riksbank's definition, price stability means that inflation, measured by the consumer price index, is limited to 2 per cent ± 1 percentage point.

Net commission A source of income for banks that primarily consists of the commissions earned by the banks when they trade with securities on behalf of customers.

Repo, repo transaction A repurchase transaction that resembles a short-term loan. The Riksbank lends money by purchasing securities from the banks. At the same time, the Riksbank undertakes to sell back these securities on a set date for a slightly higher amount. The market participants call the Riksbank's repurchase of securities for a reverse repo. The Riksbank accordingly receives its money back and the security returns to its original owner. The Riksbank usually carries out repos every week.

Repo rate The Riksbank's most important key policy rate by which the Riksbank can control short market rates with the intention of affecting inflation. Corresponds to the price difference between sale and repurchase of a repo. The banks pay the repo rate when they borrow money at the Riksbank through the Riksbank's repo transactions.

The Executive Board of the Riksbank Six members are appointed by the General Council. The Executive Board is responsible for the activities of the Riksbank and makes decisions on monetary policy, matters relating to financial stability, market operations and the payment system.

The General Council of the Riksbank The General Council of the Riksbank consists of eleven members and as many deputy members. Appointed by the Riksdag with the same period of office as the members of the Riksdag. Appoints in turn the six members of the Executive Board of the Riksbank, monitors the Riksbank's activities and decides inter alia on design of banknotes and coins.

The Sverige Riksbank Act The Sveriges Riksbank Act (1988:1385) stipulates the tasks of the Riksbank.

RIX, the Riksbank's payment system Central payment system that processes payments to and from the banks' accounts at the Riksbank. The Riksbank serves as the banks' bank for payments in Swedish kronor. Net interest income

A source of income for banks consisting of the difference between what they receive in interest on money lent and what they pay in the form of interest on blocked accounts.

Interest rate risk The risk that the value of government securities will fall or rise due changes in market rates. Also called exchange rate risk.

Statistics Sweden, SCB Central administrative agency for official statistics and other central government statistics in Sweden.

Stress test Test to assess the sensitivity of an unexpected event. For instance, the Riksbank tests the resistance of the Swedish banks to events which are not particularly probable but which could nevertheless occur.

Policy rates The rates set by the Riksbank for deposits from and loans to the banking system and which are used for monetary policy purposes.

SWIFT Society for Worldwide Interbank Financial Telecommunication. SWIFT operates a computer-based system for international provision of payments via telephone connections, permitting great speed and high security.

Asset prices Most used as an umbrella term for prices of shares and properties. It can also apply to prices of other assets in the financial markets.

Underlying inflation Measure of inflation which does not take into consideration more temporary effects. An example is CPIX which is the development of CPI excluding the effect of subsidies for household mortgage expenditure and the direct effects of changed indirect taxes and subsidies.

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.

Currency policy Measure, carried out by a central bank to affect its country's exchange rate for other currencies. Also called exchange rate policy. In

Sweden, the government decides whether the exchange rate is to be fixed or floating. The Riksbank then has the task of taking care of the day-to-day policy.

Foreign exchange reserve See gold and foreign exchange reserve.

Value at Risk, VaR Concept of risk in economics and finance which, among other things, indicates the size of the amount risked with an investment with a particular probability and over a particular period of time. Used by investors to measure the risk of a specific asset or of a portfolio of assets.

Volatility Expression of movement in different prices and interest rates. High volatility in, for example, a share means fast and large fluctuations in the share price.

VPC AB Central securities depository and clearing organisation that takes care of various routines within the sphere of securities and is subject to supervision by Finansinspektionen.

The World Bank International institution owned by 185 member countries which has the task of supporting development in poor countries by favourable loans and technical assistance.

Exchange rate The price for which a currency can be exchanged for another, i.e. the relationship of value between two currencies. Also called the exchange rate.

Fixed exchange rate A system where the exchange rate is maintained at a specified value in relation to one or more currencies. Either a country links its currency unilaterally to another or by several countries cooperating in an exchange rate system.

Variable or floating exchange rate The value of the currency is determined by the market, by supply and demand for, for example, Swedish kronor.

■ The Riksbank's Prize in Economic Sciences 2007

Sveriges Riksbank's Prize in Economic Sciences in Memory of Alfred Nobel was awarded in 2007 to Leonid Hurwicz, Eric S. Maskin and Roger B. Myerson. They have laid the basis for mechanism design theory which has, among other things, helped economists to identify efficient trading mechanisms, regulation schemes and voting procedures.

Eric S. Maskin and Roger B. Myerson, two of the prize-winners in 2007. Leonid Hurwicz was unable to attend the award ceremony on 10 December.



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 of prize money and a sum to cover the Foundation's cost for management and finance. The Government has established the statutes governing Sverige 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.

Leonid Hurwicz was born in 1917 in Moscow, Russia (US citizen). Regents Professor Emeritus of Economics at the University of Minnesota, Minneapolis, MN, USA.

Eric S. Maskin was born in 1950 in New York City, NY, USA (US citizen). Ph.D. in applied mathematics at Harvard University, Cambridge, MA, USA, 1976. Albert O. Hirschman Professor of Social Science at the Institute for Advanced Study, Princeton, NJ, USA, since 2000.

Roger B. Myerson was born in 1951 in Boston, MA, USA (US citizen). Ph.D. in Applied Mathematics at Harvard University, Cambridge, MA, USA, 1976. Glen A. Lloyd Distinguished Service Professor at University of Chicago, IL, USA, since 2007.

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 | 2006 E.S. Phelps |
| 1986 J.M. Buchanan Jr | 2007 L. Hurwicz, E.S. Maskin and R.B. Myerson |
| 1987 R.M. Solow | |
| 1988 M. Allais | |
| 1989 T. Haavelmo | |



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