



# Annual report 2008





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Fax +46-8-21 05 31. E-mail: [kontorsservicecenter@riksbank.se](mailto:kontorsservicecenter@riksbank.se) or download from the website: [www.riksbank.se](http://www.riksbank.se).  
Production: Sveriges Riksbank. Graphic design: LOG. Photography: Cover: Petter Karlberg/Bravidas bildbank.  
Lars Trangius. Bobby Yip/Reuters/SCANPIX. Leif R Jansson/SCANPIX. Insert: Lars Trangius: pages 7, 10, 22, 36, 90.  
Dan Coleman: pages 56, 58, 59, 60. The Riksbank: pages 11, 39. Page 13 Anders Wiklund/SCANPIX. Page 16  
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Employees on the front cover: Lotta Allvin, Carl Fredrik Petterson and Annika Svensson.

Printers: Jernström Offset.  
ISSN 1400-4259. Stockholm 2009.

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## ■ Introduction

Sveriges Riksbank is the central bank of Sweden and a public authority under the Riksdag, the Swedish parliament. The Riksbank is responsible for monetary policy with the objective of maintaining price stability. The Riksbank's activities also include promoting a safe and efficient payment system.

The Riksbank has around 345 employees (FTEs) and is governed by an Executive Board consisting of a Governor, Stefan Ingves, and five deputy governors. The members of the Executive Board are appointed by the General Council of the Riksbank for a term of office of five or six years.

### THE YEAR IN FIGURES

The Riksbank's net income in 2008 amounted to SEK 11.2 billion, which is an increase of SEK 7.1 billion compared with 2007. The increase is partly due to the fact that the Riksbank increased its borrowing to the Swedish banks in connection with the financial crisis in the autumn, which led to an increase in net interest income of SEK 1.5 billion. The management of the Riksbank's assets also benefited from the changes in exchange rates and the falling market rates of interest. Net income increased by SEK 2.6 billion as a result of the exchange rate effect and by SEK 2.1 billion as a result of the interest rate effect.

The market value of gold and the currency reserve increased from SEK 185 billion to SEK 220 billion, which is mainly because the Swedish krona weakened during the year and the market rates of interest fell.

The value of the Riksbank's assets increased from SEK 212 billion in 2007 to SEK 700 billion as a result of the Riksbank's measures to facilitate funding for the banks and to stabilise the situation on the financial markets. The lending of US dollars and Swedish krona to the monetary po-

licy counterparties accounts for the major part of this increase.

<b>Key figures</b>	2006	2007	2008
<i>At year-end</i>			
Net income (SEK billion)	7.9	4.1	11.2
Gold and foreign exchange reserves (SEK billion)	189	185	220
Total assets (SEK billion)	201	212	700
Average number of employees	376	364	348
<hr/>			
Repo rate (per cent)	3.00	4.00	2.00
Short-term interest rate (3-month T-bills, per cent)	3.10	4.18	1.36
Long-term interest rate (10-year government bonds, per cent)	3.81	4.35	2.43
<hr/>			
<i>Annual averages</i>			
GDP (percentage change)	4.2	2.5	0.9
Unemployment (per cent)	7.0	6.1	6.2
Inflation, CPI (percentage change)	1.4	2.2	3.4

Note. The figures for GDP and unemployment in 2008 are in accordance with the Riksbank's forecast from December 2008.

**SUMMARY**

- The Riksbank's work during the year was marked by the fact that the problems in the us financial system had a steadily increasing impact on the Swedish financial market. In September, the situation on the international financial markets changed dramatically. What had previously been referred to as a period of financial turmoil now became a global financial crisis. The financial markets did not function normally, and in some cases not at all. The Riksbank, as well as the National Debt Office and the Government, therefore implemented a range of measures to make it easier for the banks to find funding and thus to continue supplying credit. These measures helped to improve the functioning of the financial markets.
- The Riksbank offered the central banks of Iceland and Latvia EUR loans against collateral in their domestic currencies. This support was part of a range of measures taken by central banks and the IMF to reduce the risk of the local financial crisis in the two countries from spreading to other countries in the region, including Sweden. The measures helped to provide a sound basis for long-term macro-economic and financial stability in these countries.
- Over the course of the first eight months of the year, the repo rate was increased from 4.0 per cent to 4.75 per cent as a result of rapidly rising inflation. The economic situation changed during the autumn, however, due to developments on the financial markets. There was a risk that the global financial crisis would significantly aggravate the international economic downturn. The Riksbank and a number of other central banks therefore cut their policy rates by 0.5 percentage points in a joint action on 8 October. In order to mitigate the effects of the financial crisis on production and employment, and at the same time meet the inflation target, the Riksbank cut the repo rate by a further 0.5 percentage points in October and by an additional 1.75 percentage points in December. At the end of the year, the repo rate was 2.0 per cent.
- Inflation measured as the change in the Consumer Price Index (CPI) averaged 3.4 per cent during the year. The rate of inflation fell from 4.4 per cent in September, which was the highest recorded level since 1993, to 0.9 per cent in December. The relatively high level of average inflation during the year was mainly a result of dramatic increases in energy and food prices. According to the Riksbank's latest assessment, economic growth in Sweden was 0.9 per cent.
- The Riksbank reported a net income of SEK 11.2 billion. This result was partly affected by the fact that the Riksbank increased its borrowing to the Swedish banks in connection with the financial crisis in the autumn, which led to an increase in net interest income of SEK 1.5 billion. The management of the Riksbank's assets also benefited from the changes in exchange rates and the falling market rates of interest. Net income increased by SEK 2.6 billion as a result of the exchange rate effect and by SEK 2.1 billion as a result of the interest rate effect.
- During the year, the Riksbank published three Monetary Policy Reports, three Monetary Policy Updates, one report entitled "Material for Assessing Monetary Policy" and two Financial Stability Reports.

## ■ Statement by the Governor

2008 was a very eventful year. The spring and the summer were marked by considerable increases in energy and food prices and inflation reached its highest level for 15 years. In the autumn, however, there was a turnaround when the effects of the US financial crisis began to spread and had an unexpectedly serious impact in Sweden too. The course of events at home and abroad required a very rapid and flexible response on the part of the Riksbank. All of our work in this regard was characterised by a high level of quality and efficiency in our effort to live up to the vision we adopted in 2006 – to be among the best in terms of quality and efficiency in order to maintain a high level of confidence.

Recent developments clearly show how closely the Riksbank's main tasks – monetary policy and financial stability – are linked. Our most important tool in conducting monetary policy is the repo rate. We try to influence economic activity and inflation by steering the price of credit, that is, interest rates. For the Riksbank to be able to do this, however, the payment system and the credit markets must function so that our interest rate decisions have an impact on other interest rates in the economy. Financial stability is, in other words, more or less a prerequisite for our ability to conduct monetary policy in an efficient manner. Monetary policy is also of course of importance to financial stability, not least through its impact on economic activity and thus the banks' earnings and the borrowers' ability to service their debts.

From February to the beginning of September, monetary policy had to take account of two counteracting forces – on the one hand rapidly rising inflation and high cost pressure and, on the other hand, an increasing decline in economic develop-

ment around the world as a result of the unease on the financial markets. In order to bring inflation back to the target a couple of years ahead, and to prevent the increase in energy and food prices from spreading to other areas, we increased the interest rate from 4.0 to 4.75 per cent. From mid-September, however, the unease on the international financial markets changed dramatically to become a full-blown financial crisis, and Sweden was also affected. The downturn in economic activity that had already begun now accelerated and the inflation risks declined. In order to mitigate the effects of the financial crisis on production and employment, while also striving to meet the inflation target, we reduced the interest rate three times between October and December by a total of 2.75 percentage points to 2.0 per cent.

Monetary policy can mitigate the effects of the financial crisis on the economy, but it cannot solve all the problems on the financial markets. This requires additional measures. This is why, during the last four months of the year, we took

measures designed to enable the markets to return to more normal conditions by offering special loan facilities to our monetary policy counterparties. The various loan facilities were intended to both reduce the risk of disruptions in financial stability and increase the impact of monetary policy. We also granted special liquidity assistance to two financial institutions in order to maintain confidence in Sweden's credit and payments systems.

The interplay between the Riksbank's macroeconomic assessments and stability analyses was strengthened significantly during the year. Our ongoing analyses of risks and threats to the stability of the Swedish financial system, together with our constant monitoring of the development of the economy, made possible the early detection of changes and vulnerabilities that could lead to a serious crisis. Thanks to flexible cooperation between the various departments, we were well prepared to act in the event of any threats to the stability of the financial markets or to the stability of the economy as a whole.

In order to handle the highly changeable situation, we used the various tools that are at the disposal of the Riksbank. By means of the active management of the Riksbank's financial assets, we were able to conduct monetary policy, implement several loan facilities and provide temporary liquidity assistance to banks in need. In order to ensure that we have reliable data and background material as a basis for our ongoing analyses, we continued to deal with the remaining adjustment problems relating to our statistical work. We also participated in several international actions with the aim of improving the functioning of the global financial markets.

Alongside our interest rate decisions and risk analyses, we continued our work on the development of a new system for payments between the banks and other players in the financial system. However, the period chosen for the commissioning of the new system coincided with the escalation of the financial turmoil in Sweden. Consequently, following consultations with the other participants in the system, we decided to postpone the launch of the system for a few months. We also began work on reviewing the Swedish banknote and coin series in order to

give it a more effective, environmentally-adapted and secure design. It was, furthermore, possible to increase our focus on the Riksbank's core activities during the year thanks to the fact that the new structure for cash management in Sweden has now become established and the banks have taken over the operation of the cash depots.

In May, in order to contribute to increased openness and clarity regarding our work, we updated the Riksbank's general communication policy and the policy for monetary policy communication. Over and above this, we made



Stefan Ingves.

further efforts to develop our openness and communication in connection with the financial crisis. An important part of this was to conduct a continuous dialogue with the players on the financial market, the relevant authorities and the political system. At the same time, we worked actively to inform society at large about our assessments, to highlight risks and to explain the background to the events on the financial markets.

Our intensive efforts in the wake of the crisis yielded tangible results. In October and November, several opinion polls revealed that the Riksbank had the highest level of public confidence among the organisations working actively to manage the financial crisis.

Now that 2008 is over, we find ourselves in the midst of dealing with the effects of the year's events on the financial markets. The main task is to restore stability in the global financial system. It is necessary for the financial system to function in a reliable and efficient manner for the central banks to be able to conduct effective monetary policy. This is a necessary condition for good and sustainable economic development. I am convinced that we at the Riksbank, by working together, can make an important contribution to this process.

In this context I would particularly like to underline the fact that it is the expertise and efforts of the Riksbank's personnel that make it possible to implement the monetary policy deci-

sions and the measures required to promote financial stability. In my daily contacts at the Bank I meet highly-skilled and motivated employees who are extremely committed to their work.

Thanks to their commitment, the cooperation between the Executive Board and the departments can develop further and become even more effective. The responses in the year's employee survey also show that our work structure, management and organisational climate are perceived as being even better than they were a year ago. Most of the employees feel that they are working towards clear objectives and that there is an open atmosphere at the Bank. The survey also revealed, however, that the perceived level of stress among the employees has increased. We will now examine the factors that have led to this development more closely. Following a couple of years in which a lot of work has been done to adapt and transform the Riksbank's organisation, we will also now direct our efforts to consolidating and stabilising our activities.

I would like to thank all the employees for their important and valuable work and I look forward to another interesting and exciting year together at the Riksbank.



Stefan Ingves



## ■ The tasks and role of the Riksbank

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

### **MAINTAINING THE VALUE OF MONEY**

#### **– PRICE STABILITY**

According to the Sveriges Riksbank Act, the Riksbank shall maintain price stability or, in other words, ensure that inflation is low and stable. This provides a sound basis for favourable and sustainable growth.

The Riksbank has formulated an explicit inflation target according to which the annual change in the consumer price index (CPI) is to be 2 per cent. A tolerance interval of  $\pm 1$  percentage point has been set around this target to underline the fact that it is not always possible to attain the inflation target exactly.

The Riksbank changes its policy interest rate, the repo rate, to influence inflation. The repo rate affects other interest rates in the economy and ultimately economic activity and inflation.

### **A SAFE AND EFFICIENT PAYMENT SYSTEM**

#### **– FINANCIAL STABILITY**

The Riksbank has the Riksdag's mandate to promote a safe and efficient payment system. This means that the Riksbank shall act to promote stability in the financial system as a whole. The mandate also includes issuing banknotes and coins. In addition, the Riksbank provides a system that handles large payments between banks and other players in a safe and efficient way.

The Riksbank analyses the stability of the financial system on a continuous basis in order to detect, at an early stage, changes and vulnerabilities that could lead to disruptions. The analysis focuses primarily on the major Swedish banks, the functioning of the financial system and the infrastructure required for an efficient payment system. In a crisis situation, the Riksbank may in certain circumstances provide temporary liquidity assistance to banks.

### **THE RIKSBANK'S INDEPENDENCE**

The Riksbank is a public authority under the Riksdag. The Riksdag appoints the members of the Riksbank's General Council. The General Council in turn appoints the members of the Riksbank's Executive Board. The General Council also supervises and scrutinises the work of the Executive Board.

The Riksdag has given the Riksbank an independent status. This means that the Executive Board of the Riksbank makes the monetary policy decisions without instruction from other parties. By delegating the task of maintaining inflation at a low and stable level to the Riksbank, the Riksdag has ensured that monetary policy is based on a longterm perspective and that there is a sound basis for the credibility of the inflation target.

### **OPENNESS AND COMMUNICATION**

The Riksbank attaches great importance to being open and clear about the bank's activities. A wide range of external parties must be able to understand what the bank does and why. This increases the credibility of the inflation target of 2 per cent, thus making it easier for monetary policy to work effectively. Openness and clarity also create confidence in how the Riksbank assesses and handles the situation on the financial market. The independent status of the Riksbank also places great demands on the transparency of the bank's activities so that they can be examined and evaluated.

Openness is apparent, for example, in the fact that the Riksbank publishes minutes and background material from the meetings of the Executive Board, as well as the minutes of the monetary policy meetings, on its website. The macroeconomic models that the Riksbank uses in its analyses are also public.

## ■ Maintaining the value of money – price stability

Average annual inflation measured as the change in the CPI was 3.4 per cent in 2008. This figure is higher than the forecasts produced by the Riksbank in 2006 and 2007. The major part of the increase in inflation is explained by the dramatic increase in energy and food prices. The global financial crisis worsened drastically in the early autumn and began to have a tangible impact on development in Sweden. The ongoing downturn in the economy worsened and the high level of inflation began to fall rapidly.

According to the Sveriges Riksbank Act, one of the tasks of the Riksbank is to maintain price stability. The Riksbank has formulated an explicit target for inflation of 2 per cent, measured as the annual percentage change in the Consumer Price Index (CPI). There is a tolerance interval of  $\pm 1$  percentage point around this target. The purpose of this interval is to make it clear that it is not always possible to meet the inflation target precisely. It also serves to underline that excessive deviations are unacceptable if the target is to remain credible.

The Riksbank conducts what is known as flexible inflation targeting. The aim is not only to stabilise inflation around the target but also to promote stability in the real economy, for example in production and employment. By refraining from bringing inflation back to the

target as quickly as possible in the event of a shock to the economy, the Riksbank can help to dampen fluctuations in the real economy.

The Riksbank influences inflation in Sweden by changing its policy rate, the so-called repo rate, and by presenting a forecast for the development of the repo rate over the next few years. The repo rate determines what the banks have to pay to borrow from the Riksbank or what they receive in return when they deposit funds with the Riksbank. In this way other interest rates in the economy are also affected, and ultimately economic activity and price movements.

It normally takes some time before changes in the repo rate have a full impact of the Riksbank's changes in the repo rate to materialise. A common estimate is that the main impact on production and inflation takes place within a couple of

*Peter Knutas, Sofia Frederiksen  
and Tanja Lundström.*

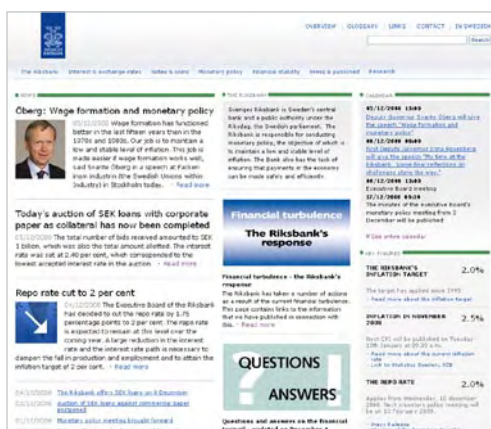


years following such a change. The Executive Board of the Riksbank must therefore look ahead when the repo rate decisions are made, which means that monetary policy must be based on forecasts.

### WORK AND DECISION-MAKING PROCESSES IN THE FIELD OF MONETARY POLICY

Economic reality is complex. The Riksbank therefore uses simplified correlations in its forecasting work in the form of models based on economic experience. These are then combined with assessments made by experts in various fields and by the members of the Executive Board. The Riksbank's forecasts are based on the development of the repo rate over the next few years, the so-called repo rate path, that the Executive Board deems to be the most appropriate given the information available at the time each repo rate decision is made.

The Executive Board holds six ordinary monetary policy meetings per year at which it decides on the repo rate but can, when necessary, hold additional meetings for repo rate decisions. In connection with three of the ordinary meetings the Riksbank publishes a comprehensive Monetary Policy Report that contains detailed forecasts for the economy and inflation as well as assessments of the repo rate in the period ahead. The three other meetings are accompanied by the publication of a so-called Monetary Policy Update which contains forecasts for the same variables as in the Monetary Policy Report but is otherwise less detailed. Approximately two weeks after every monetary policy meeting, the Riksbank publishes the minutes of the meeting. These minutes record the arguments presented by the various members of the Executive Board and how they voted.



The Riksbank further improved its communication and transparency during the year. The website was expanded and regularly updated with information explaining the background to the course of events in the financial crisis. The number of press releases increased to 74. The members of the Executive Board made a total of 150 speeches. Executive Board members and other Riksbank employees were quoted in the media more than 1 100 times.

The Riksbank is also obliged by law to submit a written report on monetary policy to the Riksdag at least twice a year. The first report consists of specific background material for assessing monetary policy compiled for the parliamentary Committee on Finance. The second report is the current Monetary Policy Report. A couple of weeks after the submission of the written reports, the Governor of the Riksbank appears before the Committee on Finance to answer questions about monetary policy.

### Activities in 2008

Alongside its regular monetary policy work, the Riksbank made certain changes to its monetary

### Goal

According to the Sveriges Riksbank Act, the objective for monetary policy is to maintain price stability. The Riksbank has expressed this objective as a specific target which is that inflation, measured in terms of the annual change in the Consumer Price Index (CPI), should be 2 per cent.

### Results

The annual average for inflation in 2008, measured as the change in the CPI, was 3.4 per cent. The fact that inflation overshot the target of 2 per cent was largely due to a surprisingly rapid increase in energy and food prices in late 2007 and early 2008.



policy communication. The Riksbank also decided to phase out a measure of underlying inflation called CPIX.

#### **UPDATING OF THE RIKSBANK'S COMMUNICATION POLICY**

A certain amount of criticism was levelled at the Riksbank's monetary policy communication at the start of the year. This primarily concerned the Riksbank's communication between the monetary policy meetings. Important target groups felt that the information provided by the Riksbank had not been adequate and that the Members of the Executive Board had not been active enough in the public debate on economic policy.

During the spring, the Riksbank conducted a review of its external and internal communication activities. In May, a document that summarises the Riksbank's overall communication policy was published. The section of the communication policy that specifically concerns monetary policy was described in a special appendix.

The new communication policy takes account of the views and proposals put forward in discussions with agents on the financial market, journalists and others. It means that the Riksbank intends to be more generous in the future with its comments on new statistics or important trends in the economy between the monetary policy meetings. As previously, however, the policy is that the information provided should not anticipate how individual members or the Executive Board as a whole will vote on the repo rate at the next monetary policy meeting.

#### **THE CPIX INFLATION MEASURE PHASED OUT**

In its analyses and communication, the Riksbank uses various partial measures of in-

flation alongside the CPI. The CPIX, which was previously termed UNPIX, is the measure that has been used most in recent years. The CPIX excludes the effects of indirect taxes, subsidies and mortgage costs from the CPI. The measure has been used, above all, as a means of illustrating the direct effects of the Riksbank's repo rate changes. Changes in the repo rate affect mortgage costs more or less immediately. These changes thus have a direct impact on the CPI but not on the CPIX.

In June, the Riksbank announced that the CPIX inflation measure would be phased out of the Monetary Policy Reports and the Riksbank's communication in general. One of the reasons for this is that it is no longer expected that the CPI and the CPIX will coincide even in the slightly longer term, which the Riksbank previously assumed. This is mainly due to the dramatic increases in house prices in recent years which, given the calculation method used, will affect mortgage costs for some time to come. Another reason is that there are more suitable measures than the CPIX for illustrating the direct effects of the Riksbank's policy.

The Riksbank will continue to use different measures to illustrate the driving forces behind inflation at different points in time. This applies not least to the direct effects of the Riksbank's own repo rate changes, which are now excluded in a better way than in the CPIX. The new measure that excludes interest rate changes, the CPIF (the CPI with a fixed mortgage rate), was first published in the second Monetary Policy Report from July 2008. However, it is not the intention that this measure should have a special status in the same way as the CPIX. There will instead be a more direct focus on the CPI as a target va-



In 2008, the Riksbank helped to stabilise the economic situation in Europe by offering EUR loans to the central banks of Iceland and Latvia. These loans form part of broader support programme run in conjunction with the IMF, central banks and governments.

riable. The phase out of the CPIX is not expected to have a tangible effect on the repo rate decisions in the future.

#### MONETARY POLICY DECISIONS IN 2008

From February to the beginning of September, the Riksbank increased the repo rate from 4.0 to 4.75 per cent. Inflation had been driven up, above all, by the substantial increases in energy and food prices. In mid-September, however, the situation changed when the turmoil on the international financial markets increased dramatically. The ongoing downturn in the economy worsened which, in combination with lower prices for oil and other commodities, indicated that inflationary pressures would be lower in the period ahead. In order to mitigate the effects of the financial crisis, the Riksbank rapidly reduced the repo rate. At the end of the year, the repo rate was 2.0 per cent.

*The repo rate was raised in February and was expected to remain unchanged for the rest of the year*  
At the beginning of the year economic activity in Sweden was good and the labour market was strong. Although the Riksbank's assessment was that GDP growth would slacken during the year and that employment would increase more slowly, this did not indicate any severe weakening of economic activity.

Inflation had risen rapidly in Sweden since the autumn of 2007, and was also expected to be high in 2008. This was primarily explained by increases in energy and food prices. However, the Riksbank noted that the underlying inflationary pressures and inflation expectations had also risen, which could threaten the inflation target in the slightly longer term. Production resources were more strained than normally and production costs rose at a rapid rate. Productivity growth was weak and hourly wages were rising at a higher rate than before.

Internationally, the turbulence on the financial markets continued. There was great uncertainty concerning economic developments in the United States and the contagion effects on the rest of the world. The risk of weaker activity in the world economy was considered to have increased.

The Riksbank's assessment at the monetary policy meeting in February was that the repo rate needed to be raised by 0.25 percentage points to 4.25 per cent and to then be held unchanged during the remainder of the year (see Diagram 1). This would contribute to bringing inflation back towards the target of 2 per cent a couple of years ahead. But the assessment was considered to be very uncertain. For example, the Monetary Policy Report contained a risk scenario where a higher oil price in the coming three quarters would lead to higher inflation and a higher repo

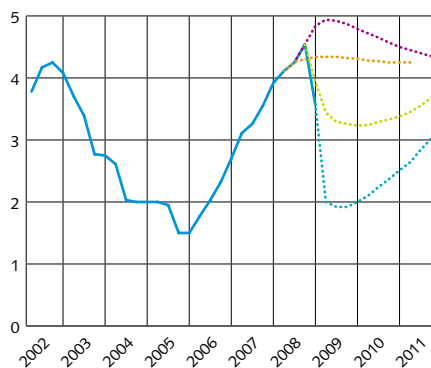


DIAGRAM 1  
Repo rate forecasts 2008, per cent, quarterly averages.

- Repo rate
- Repo rate forecast MPR 2008:1
- Repo rate forecast MPR 2008:2
- Repo rate forecast MPR 2008:3
- MPU december 2008

Note. MPR denotes Monetary Policy Report and MPU denotes Monetary Policy Update.

Source: The Riksbank.

rate and to lower GDP growth. The Riksbank noted that monetary policy must take into account two contradictory forces – on the one hand high inflation and high cost pressure, and on the other hand risks linked to the turbulence in the international financial markets and weaker international economic activity.

At the meeting in April the basic picture from February had not changed to any great extent. The Riksbank therefore held the repo rate unchanged and it was expected to remain at 4.25 per cent during the remainder of 2008.

*The repo rate was raised in July and the repo rate forecast was adjusted upwards*

In July, too, the monetary policy deliberations to a large degree concerned dealing with rising inflationary pressures on the one hand and weaker economic activity on the other hand. Growth was still slowing down both in Sweden and abroad, not least as a result of the unease in the international financial markets. The Riksbank noted that it was still not possible to say when the situation on the financial markets would return to normal. Now there were signs that the rate of the slowdown in economic activity in Sweden was increasing and that it would be more tangible than was expected in February and April. The Riksbank's assessment was, however, that resource utilisation would be normal at the end of the forecast period.

At the same time, inflation had continued to rise and reached just over 4 per cent during the summer, which was the highest level since the mid-1990s. Inflation expectations had risen as well. The upturn was largely explained by energy prices rising more than expected during the spring. At the end of May the oil price had risen so much that it was in line with the price in the risk scenario in the previous Monetary Policy Report. The Riksbank emphasised that it is not the task of monetary policy to attempt to influence changes in relative prices; that is, that certain prices increase more than others. However, the Riksbank's assessment was that there was a risk that the sharp rises in food and oil prices would lead to other prices also beginning to rise too quickly.

Given that inflation had risen surprisingly quickly and that the risk of the high inflation rate becoming entrenched was thought to have increased, the Riksbank raised the repo rate by 0.25 percentage points to 4.5 per cent. The assessment also was that the repo rate needed to be raised two more times during the year to bring inflation back on target two years ahead.

The situation at the time of the monetary policy meeting in July was particularly difficult to judge, as was reflected by the fact that three members of the Executive Board entered reservations against the forecast in the Monetary Policy Report. Their reservations included the

## Repo rate decisions in 2008

- **12 February** The repo rate was raised by 0.25 percentage points to 4.25 per cent and was expected to remain at this level over the coming year. Deputy Governor Lars Nyberg and First Deputy Governor Irma Rosenberg entered reservations against the decision to raise the repo rate and against Monetary Policy Report 2008:1 and the main scenario presented in the Report. They noted that domestic factors supported an increase in the repo rate: cost pressure was high, inflation was above the target and inflation expectations had risen in both the short term and the slightly longer term. However, uncertainty about developments on the international financial markets had increased since December 2007.
- **22 april:** The repo rate was held unchanged at 4.25 per cent. The view of the repo rate path was unchanged.
- **2 july:** The repo rate was raised by 0.25 percentage points to 4.5 per cent and the repo rate path was adjusted upwards. Executive Board members Lars Nyberg, Irma Rosenberg and Barbro Wickman-Parak supported the decision to raise the interest rate by 0.25 percentage points but entered a reservation against the main scenario's forecasts for the repo rate, inflation and growth in the period ahead. They advocated a lower repo rate path.
- **3 september:** The repo rate was raised by 0.25 percentage points to 4.75 per cent but the repo rate path was adjusted downwards. Executive Board members Lars Nyberg, Irma Rosenberg and Barbro Wickman-Parak entered reservations against the decision to raise the repo rate by 0.25 percentage points and considered that the repo rate should be held unchanged. They also entered reservations against the repo rate path included in the Monetary Policy Update and advocated a lower repo rate path.
- **8 oktober:** The repo rate was cut by 0.5 percentage points to 4.25 per cent.
- **22 oktober:** The repo rate was cut by 0.5 percentage points to 3.75 per cent and the repo rate path was adjusted downwards substantially compared with September.
- **3 december:** The repo rate was cut by 1.75 percentage points to 2.0 per cent and the repo rate path was adjusted downwards substantially compared with the assessment in October.

repo rate path for the period ahead. According to these three Board members, the slowdown in the economy would dampen inflationary pressures to a greater degree than assumed in the forecast. However, all of the Board members supported the decision to raise the repo rate in July.

*The repo rate was raised once again in September, but the repo rate forecast was adjusted downwards*

The unrest in the international financial markets continued over the summer. The Riksbank noted in September that it was still uncertain what would happen in the financial markets in the future and that the uncertainty would probably remain for some time to come. Economic activity abroad had slowed down more than the Riksbank had expected in July. Oil and commodity prices on the world markets had also fallen and were now expected to be lower in the period ahead.

As in other countries, GDP growth in Sweden in the first half of the year was weaker than expected. Forward-looking indicators pointed to continued weakening and the figure for GDP growth was revised downwards.

At the same time, inflation continued to be high. The same applied to inflation expectations (see Diagrams 2 and 3). Although wage increases were somewhat lower than expected, the development of labour productivity was much weaker than the assessment in July. All in all, this led to the assessment was that unit labour costs would increase at a faster rate than previously expected, especially in the short term. Domestic cost pressures thus remained high.

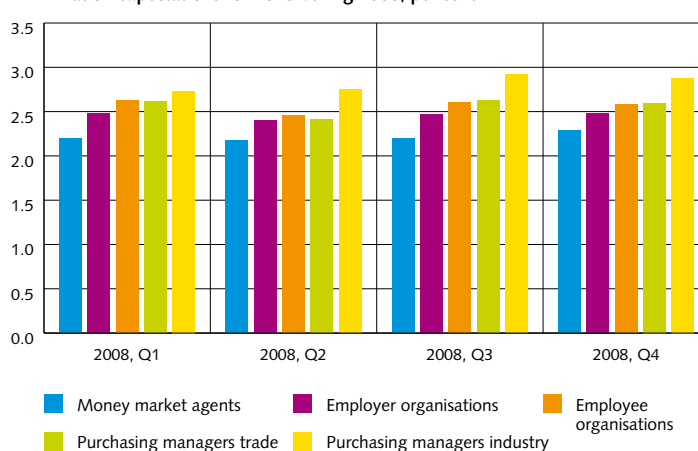
DIAGRAM 2  
Inflation expectations for 2010 during 2008, per cent



Note. The data for the fourth quarter relates to inflation expectations at the end of September and beginning of October.

Source: Prospera Research AB.

DIAGRAM 3  
Inflation expectations for 2013 during 2008, per cent.



Source: Prospera Research AB.



The Riksbank decided to raise the repo rate to 4.75 per cent. Compared with the forecast in July, however, the repo rate path was adjusted downwards (see Diagram 1). The reason was partly that the oil price and other commodity prices had fallen, and partly that growth had slowed down more than expected both in Sweden and abroad.

The situation was difficult to assess, as illustrated by the fact that three of the Executive Board members entered reservations against both the decision to raise the repo rate and the repo rate path. They expected that the slowdown in the economy would be more pronounced and inflationary pressures would be more subdued than the forecast assumed.

After the monetary policy meeting in September, Statistics Sweden published revised figures for inflation for the months January to July 2008. These figures showed that inflation measured in terms of the CPI was somewhat lower than Statistics Sweden had previously estimated.



In September, the Riksbank entered into an agreement with the US central bank, the Federal Reserve, on a reciprocal loan arrangement in the form of swap agreements. This increased the ability of the Riksbank to offer USD loans to Swedish banks should the need arise.

However, the annual rate of increase in the CPI was still high and amounted to 4.4 per cent in September.

*The financial crisis worsened rapidly and the Riksbank made substantial cuts in the repo rate*

In mid-September, the situation on the international financial markets changed dramatically. What had previously been referred to as a period of financial turmoil became a global financial crisis after the US investment bank Lehman Brothers filed for bankruptcy. The crisis now also began to tangibly affect the financial markets in Sweden. Within a short period of time, several central banks, including the Riksbank, were forced to take measures to support individual banks and to help the financial markets to function more effectively (see the section "A safe and efficient payment system" for a review of the measures taken by the Riksbank). The unease in the international financial markets had been a component of the Riksbank's analyses during a relatively long period of time. But it was nevertheless unexpected that the situation would deteriorate so rapidly and as tangibly as it did at the beginning of the autumn.

There was a risk that the global financial crisis would significantly aggravate the international economic downturn. However, the increased risk of a sharp slowdown in economic growth also meant lower inflation risks, partly as a result of falling oil and commodity prices. Given this, a number of central banks cut their policy rates by 0.5 percentage points in a joint action on 8 October. The banks that took part in the joint action were the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, the Swiss National Bank and the Riksbank.



The Riksbank also cut the repo rate at the ordinary monetary policy meeting held on 22 October, by 0.5 percentage points to 3.75 per cent. The Riksbank noted that the financial crisis had worsened and was now clearly affecting developments in Sweden. The crisis had led to higher loan costs for companies and households, shrinking capital wealth, decreasing credit supply and a general increase in uncertainty. The forecasts for both inflation and GDP growth in 2009 were revised down substantially. The assessment was that it would be necessary to cut the repo rate by a further 0.5 percentage points during the following six months.

The final monetary policy meeting of the year was brought forward by two weeks to 3 December. Economic activity declined rapidly in November and GDP growth fell in both the second and third quarters. Household consumption also declined and the confidence indicators that summarise the mood in the Swedish economy fell to historically low levels. The labour market continued to weaken and the number of redundancy notices increased rapidly. The financial crisis also led to tighter credit conditions at the same time as short-term market rates lost their normal connection to the repo rate as a result of rising risk premiums. This meant that the interest rates charged to the general public were higher than normal, given the level of the repo rate. The oil price and other commodity prices continued to fall, which pushed down inflation. Given this background, the Riksbank assessed that it was necessary to drastically reduce the repo rate and the repo rate path in order to dampen the fall in production and at the same time meet the inflation target a couple of years ahead. The Executive Board of the Riksbank therefore decided to cut the repo rate by 1.75 percentage points to 2 per cent.

### Follow-up

The Riksbank's monetary policy is evaluated by the parliamentary Committee on Finance. The Riksbank compiles a written report entitled "Material for Assessing Monetary Policy" for this evaluation. This is published just after the first Monetary Policy Report each year. The report, which nowadays is a separate publication, is submitted to the Riksdag shortly after the Riksbank's Annual Report. This follow-up of monetary policy decisions is therefore shorter than in previous years.

Since the effects of the Riksbank's changes in the repo rate arise gradually, any follow-up and evaluation of monetary policy must be based on the forecasts and the repo rate decisions made during the preceding two years. The outcome for inflation in 2008 should thus primarily be related to the forecasts for 2008 produced in 2006–2007 and the repo rate decisions made in this period.

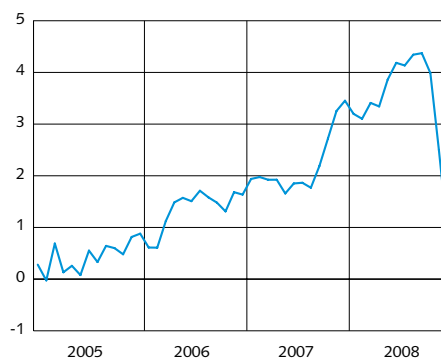
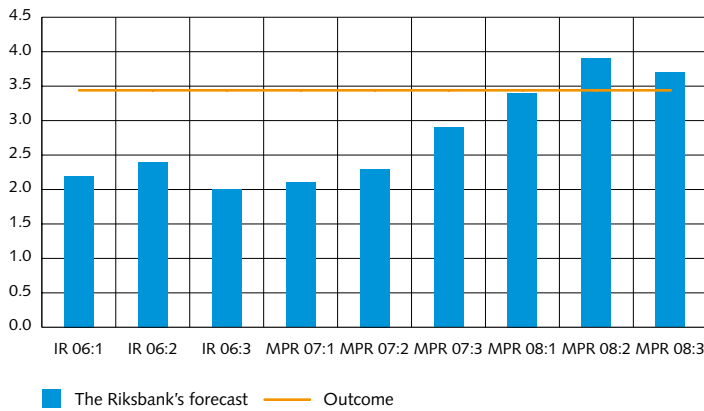


DIAGRAM 4  
CPI, annual percentage  
change.

— CPI, outcome

Sources: Statistics Sweden and  
the Riksbank.

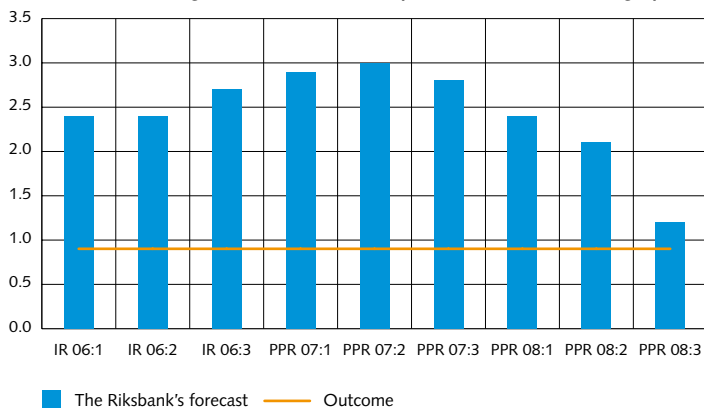
DIAGRAM 5  
Forecasts for CPI inflation in 2008 at various points in time, annual average, per cent.



Note. IR denotes Inflation Report and MPR denotes Monetary Policy Report.

Sources: Statistics Sweden and the Riksbank.

DIAGRAM 6  
Forecasts for GDP growth in 2008 at various points in time, annual average, per cent.



Note. IR denotes Inflation Report and MPR denotes Monetary Policy Report. The outcome for GDP growth relates to the first three quarters of 2008. The statistics for GDP in the fourth quarter of 2008 had not been published when this Annual Report was compiled.

Sources: Statistics Sweden and the Riksbank.

## INFLATION 2008

Inflation rose rapidly during the major part of the year and was well above the inflation target (see Diagram 4). A large part of the increase was due to significant increases in food and energy prices on the world markets. The steady increase in domestic resource utilisation in recent years also contributed to rising inflation.

At the end of 2008, inflation began to fall quickly in connection with the worsening of the financial crisis and the downturn in energy and food prices. In December, CPI inflation was 0.9 per cent, compared with 4.4 per cent when it peaked in September.

On average over the year CPI inflation was 3.4 per cent, which can be compared with 2.2 per cent in 2007 (see Table 1). Underlying inflation also increased. Measured in terms of the CPIF (the CPI with a fixed mortgage rate), underlying inflation was 2.7 per cent during the year – almost double the figure for the previous year. The CPIF excluding energy prices rose by 1.9 per cent in 2008, compared with 1.6 per cent in 2007. This shows that energy prices had a major impact on inflation in 2008. The direct effect of rising energy prices on the CPI was approximately 0.8 percentage points during the year. The effect of interest rate changes measured as the difference between the CPI and the CPIF was the same.

TABLE 1  
Comparison between different measures of inflation, annual percentage change

ANNUAL AVERAGE	2006	2007	2008
CPI	1.4	2.2	3.4
CPIF	1.4	1.5	2.7
CPIF excl. energy	0.8	1.6	1.9

Sources: Statistics Sweden and the Riksbank.

**FORECASTS AND THE EXECUTIVE BOARD'S  
MONETARY POLICY DECISIONS 2006**

At the beginning of 2006, the Riksbank estimated that inflation in 2008 would be around or slightly above the target (see Diagram 5) despite a continued upswing in economic activity. The reason was that the Riksbank expected good growth in productivity and high competitive pressure to have a restraining effect on domestic inflation. The forecast also assumed that the Riksbank would increase the repo rate gradually in line with expectations on the financial markets. The Executive Board thus decided to increase the repo rate by 0.25 percentage points at the monetary policy meetings in January, February and June.

The price of oil on the world market fell after the summer of 2006, which was expected to exert additional downward pressure on inflation. The inflation forecast for 2008 was therefore revised downwards in the final report of 2006. However, new statistics on the National Accounts and labour market during the second half of 2006 showed that the upswing in economic activity was stronger than the Riksbank had expected. The Executive Board also noted that the situation in the labour market had clearly improved and that employment had picked up. The Riksbank began to revise the forecast for GDP growth in 2008 upwards (see Diagram 6). Household borrowing and house prices also increased. All this indicated that the Riksbank would need to raise the repo rate further in order to meet the inflation target in 2008. The repo rate was therefore increased by 0.25 percentage points in August, in October and in December 2006.

**FORECASTS AND THE EXECUTIVE BOARD'S  
MONETARY POLICY DECISIONS 2007**

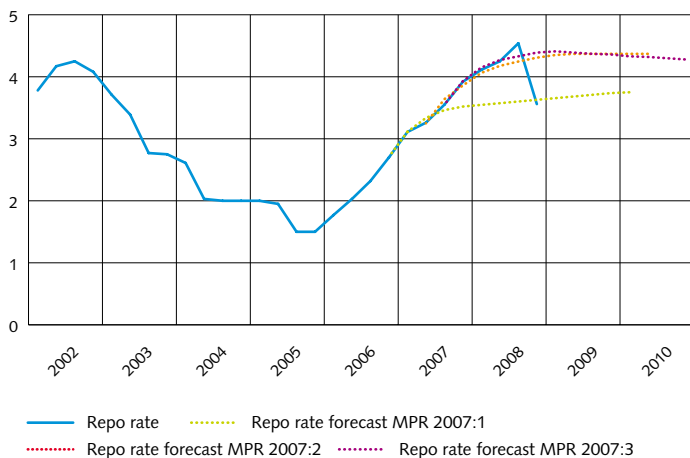
The Riksbank presented its own forecast for the repo rate for the first time in February 2007. This forecast predicted that the Riksbank would need to raise the repo rate twice during the first half of the year. The reason for this was that the Riksbank foresaw strong economic activity both in Sweden and abroad. The assessment was that inflation would rise in the period ahead in pace with the increase in resource utilisation. At its monetary policy meeting in February the Executive Board therefore decided to raise the repo rate by 0.25 percentage points to 3.25 per cent (see Diagram 7).

In mid-2007, the inflation forecast for 2008 was revised upwards. The situation on the labour market had become more strained. It appeared that there would be a decline in the growth of productivity and that unit labour costs would be higher than the Riksbank had estimated previously. The price of oil on the world market had increased and was expected to continue to increase. All this indicated that inflation would be higher, which led the Riksbank to increase the repo rate by 0.25 percentage points to 3.5 per cent. The forecast for the repo rate path over the next few years was also adjusted upwards in both May and June. The Executive Board's assessment was that the repo rate should be around 4 per cent at the end of 2007 and then be raised once or a couple of times in the coming years.

During the second half of 2007 there were further signs that reinforced the picture of a tighter labour market and high resource utilisation. New information indicated that inflation-

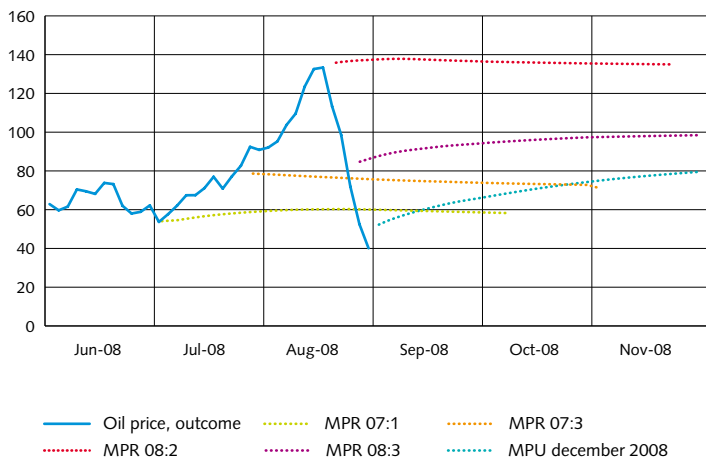


DIAGRAM 7  
Repo rate forecasts 2007, per cent, quarterly average.



Note. Broken lines represent the Riksbank's forecast. MPR denotes Monetary Policy Report.  
Source: The Riksbank.

DIAGRAM 8  
Oil price, Brent crude oil, USD per barrel.



Note. Broken lines represent the Riksbank's forecast. MPR denotes Monetary Policy Report and MPU denotes Monetary Policy Update.  
Sources: Intercontinental Exchange and the Riksbank.

ry pressures were somewhat stronger than expected. Food prices had, for example, begun to increase as a result of an upswing in the prices of food commodities on the world market. This suggested that the forecast for the repo rate should be adjusted upwards somewhat. On the other hand, there was much more uncertainty about how strong growth abroad was following the financial unease that developed in the wake of the crisis on the mortgage market in the United States. The Riksbank's assessment was that this could also slow down growth in the Swedish economy somewhat. All in all, the conclusion at the meetings in September and October was that the repo rate would need to be raised at around the same pace as assumed by the Executive Board in June. The repo rate was raised by 0.25 percentage points at each of the meetings.

During the final quarter of 2007, the uncertainty regarding international developments increased as a result of the crisis in the US mortgage market. Swedish growth also looked to be slowing down sooner than expected (see Diagram 6). The financial turmoil made it more expensive for households and companies to borrow money, which was expected to reduce consumption and investment in the country. At the same time, inflation was higher than expected. The situation thus remained difficult to assess, with different forces pulling in different directions. The repo rate was held unchanged in December and the repo rate forecast was largely the same as in October.

## UNEXPECTED SHOCKS HELPED TO DRIVE INFLATION ABOVE THE TARGET

The fact that inflation was far above the target level in 2008 raises the question of whether the repo rate should have been higher in 2006 – 2007. But evaluating monetary policy after the fact requires careful consideration. The economy is constantly subjected to shocks that are difficult, or even impossible, to predict. The relevant question is therefore whether monetary policy was reasonable given the information that was available on the occasions when the repo rate decisions were made.

One example of a shock in 2007 and 2008 was that energy and food commodity prices rose substantially and helped to push up inflation to unexpectedly high levels around the world. The oil price in particular rose dramatically (see Diagram 8). This development was not foreseen when the Riksbank made its forecasts in 2006 and 2007. The fact that inflation overshot the target in 2008 was thus partly due to unexpected shocks.

From the summer of 2008, energy and food prices fell quickly, which also led to a fall in inflation. The crisis on the international financial markets also contributed to this fall in inflation. The increase in inflation was thus temporary.

## The Riksbank's research

An important aim of the research conducted by the Riksbank is to develop models and tools for the analyses that the Executive Board needs to make its decisions.

It is now a common ambition among the central banks to base their monetary policy analyses on so-called general equilibrium models that make it possible to capture the most important links and correlations in large parts of the economy. The Riksbank's model, Ramses, is now a well-established tool in the analysis work that forms the basis of the Monetary Policy Report. Research work is currently underway to further improve this model. In 2008, the Riksbank worked to develop the model in three main areas: the financial sector, the labour market and foreign trade.

In addition to Ramses, the Riksbank uses a wide range of statistical models in order to illuminate the expected future development of the economy. The statistical research work focused during the year on providing models that are better able to capture changes in the long-term relationships in the economy. Work was also done on models that evaluate the Riksbank's previous forecasts in relation to the outcomes and to other forecasters.

Furthermore, the Riksbank has run a project that aims to explain the factors that have had a decisive impact on the dramatic increase in household borrowing from the banks in recent years. Preliminary results indicate that low demands for down payments in connection with house purchases, in combination with low interest rates, largely explain the increase in household indebtedness.

In September, the Riksbank arranged an international conference on household debts and house prices. Here, invited researchers presented both theoretical and empirical material in an effort to illuminate the background to the global financial crisis.

## ■ A safe and efficient payment system

The Swedish financial system was increasingly affected by the worsening international financial crisis during the year. It became more and more difficult for the major Swedish banks to find funding on foreign markets despite continued high earnings and adequate buffers to deal with unforeseen events. The financial markets did not function normally, and in some cases not at all. The Riksbank, as well as the National Debt Office and the Government, therefore implemented a range of measures to make it easier for the banks to find funding and thus to continue supplying credit. These measures helped to improve the functioning of the financial markets. The problems with the functioning of the markets also led to the postponement of the commissioning of the new technical system for payments between the banks to 2009. The new infrastructure for cash management helped to make cash flows more efficient.

The Riksbank has the Riksdag's mandate to promote a safe and efficient payment system. "The payment system" is a broad term and covers in practice the entire financial system. One of the important tasks of the system is to convert savings to loans that can be used for investments, consumption and house purchases. The system should also manage financial risks and provide payment services. The major banks are particularly important to the financial system.

For the financial system to work in a safe and efficient way, an established infrastructure for payments and for marketplaces where the buyers and sellers of various financial instruments can meet is also required

The Riksbank's mandate includes preventing crises in the financial system and managing such crises if they nevertheless do arise (see Figure 1). The Riksbank is also responsible for issuing banknotes and coins. The Riksbank also provides a system for large-value payments in Swedish kronor between the banks, the so-called RIX system.

*David Forsman, Cedomirka  
Merdovic and Sofia Sjöqvist.*



## Financial Stability

Overseeing the financial system is an important part of the Riksbank's preventive stability work. It involves ongoing follow-up and analysis activities to assess whether risks are developing in the major Swedish banks or in the infrastructure that is vital for payments. The latter includes the technical systems, rules and routines that are used to pay for securities, currencies, goods and services.

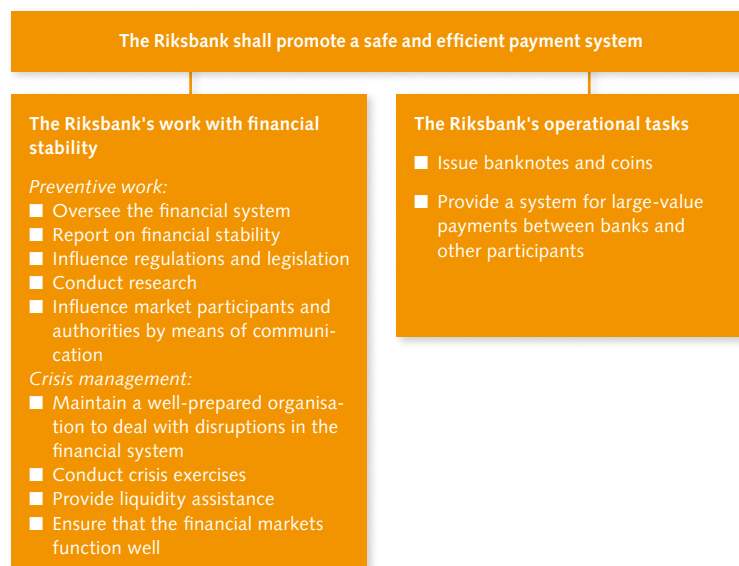
### THE RIKSBANK OVERSEES THE FINANCIAL MARKET

The major banks are the focal point of the Riksbank's overseeing activities as they play a central role in the financial system. The Riksbank also monitors the financial markets as the banks are dependent on these markets to fund their operations and manage their risks. A large part of the banks' earnings also come from securities trading. A secure and efficient infrastructure is a precondition for the effective functioning of this trade. The Riksbank therefore continually oversees the systems in the Swedish financial infrastructure that it believes are critical to the functioning and stability of the financial system.

### THE RIKSBANK DISSEMINATES KNOWLEDGE

In order to prevent crises, the Riksbank must monitor and provide information about developments in the financial system. The Riksbank therefore issues a report on financial stability twice a year. In these reports, the Executive Board presents its assessment of the resilience of the major banks to unexpected events and highlights factors that could potentially disrupt financial stability.

FIGURE 1  
The Riksbank's work to promote a safe and efficient payment system



Knowledge about the Riksbank's efforts to promote financial stability is also disseminated in other ways: by conducting an ongoing dialogue with the market participants, by publishing speeches and by participating in the public debate. Moreover, the Riksbank has the possibility to influence the framing of laws and regulations that relate to supervision and crisis management, for instance by commenting on draft legislation and by participating actively in several international organisations.

### THE RIKSBANK MANAGES FINANCIAL CRISES

If a financial crisis occurs, it is the Riksbank's task – together with Finansinspektionen (the Swedish Financial Supervisory Authority), the Ministry of Finance and the National Debt Office – to manage the crisis in such a way that the costs to

#### Goal

The objective for the Riksbank's work in the field of financial stability is, among other things, to maintain a high capacity to manage crises in the financial system. This work focuses primarily on the major Swedish banks and the functioning of the financial market.

#### Results

The financial crisis made it difficult for the Swedish banks to fund their operations on the market. It was possible to maintain the stability of the Swedish financial system thanks to the measures taken by the Riksbank, the Swedish National Debt Office and the government during the autumn.





In the autumn, the Riksbank harmonised its collateral requirements for credit in the RIX system with the requirements applied in the Eurosystem. The limit for the percentage of the total collateral that could be provided in the form of covered bonds was removed and the limit for the lowest credit rating required for collateral was lowered.

society are limited as much as possible. The financial system is so strongly interlinked that a problem that arises in one bank can rapidly spread to other banks. This is because the banks borrow from each other, often lend to the same groups and are dependent on the same financial markets. Increasing globalisation also means that confidence and liquidity crises that hit banks abroad can spread to the Swedish banks.

The Riksbank has a special responsibility for the liquidity supply of the Swedish banks. This means that the banks can borrow from the Riksbank under normal terms and conditions and that the Riksbank can provide temporary liquidity assistance to individual banks that suffer an acute liquidity crisis. This assistance is provided on condition that the bank is under the supervision of Finansinspektionen and that its future earning capacity is deemed to be sufficient to enable the bank to survive. The bank in question must also be systemically important in the sense

that serious disruptions could arise in the financial system if the bank collapsed. It is not possible in advance to determine whether a bank is systemically important or not – the assessment must be made on the basis of the circumstances at the time.

It is also possible for the Riksbank, for preventive purposes, to take general measures to support the supply of liquidity to the Swedish banking system. The aim of such measures is to reduce the risk of a shortage of liquidity leading to serious disruptions in the functioning of the market and to reduce the risk of acute liquidity problems in individual banks.

In order to manage a crisis effectively, the Riksbank must constantly keep its plans for a crisis organisation up to date. The Riksbank therefore organises its own crisis exercises to evaluate and improve its crisis preparedness, and also participates in exercises together with other Swedish and foreign authorities, primarily supervisory authorities and ministries of finance. In pace with the growth in the cross-border operations of the banks, it has become increasingly important to conduct crisis exercises in which authorities from different countries participate.

## Activities in 2008

The work with financial stability was marked by the financial crisis that began on the US mortgage market in 2007. Since the turn of the year 2007/2008, the crisis has had increasingly serious consequences for the Swedish financial system. The Swedish banks were not exposed to the markets or institutions that experienced the most serious problems to any great extent, and they were therefore not hit so hard during the first



year of the financial crisis. However, when the global confidence and liquidity crisis worsened in the autumn of 2008 after Lehman Brothers filed for bankruptcy, the Swedish financial system was also seriously affected. The Swedish banks, in common with banks in other countries, found it increasingly difficult to borrow money on the international markets, money that was needed to fund lending to households and companies. This drove up the banks' borrowing costs, which in turn had an impact on the lending rates that households and companies had to pay. The liquidity problems also reduced the supply of loans to the public.

#### *Measures to support the banks' liquidity*

In order to make it possible for the banks to continue performing their functions, which include credit supply, central banks around the world have supplied the banks with large amounts of liquidity. This has entailed various general measures that extended the banks' possibilities to lend from the central banks in both domestic and foreign currencies at maturities longer than those normally offered. A wider range of securities than normal has also been accepted as collateral for these loans. In addition, the authorities took a number of special measures during the autumn directed at financial institutions that were experiencing acute problems.

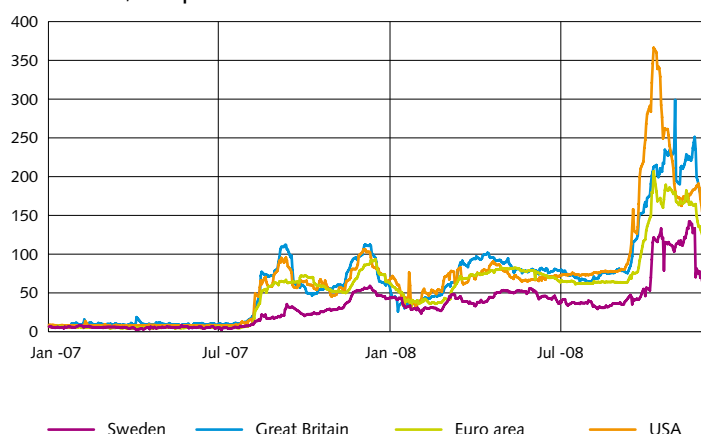
In Sweden too, the authorities implemented a number of measures during the autumn (see the box "Measures taken by the Riksbank and Swedish authorities during the financial crisis in autumn 2008"). As far as the Riksbank is concerned, these measures have included offering the banks loans in Swedish kronor at longer maturities in order to increase access to liquidity. The Riksbank has also offered loans in US dollars. Extending the possibility to borrow using mortgage bonds as collateral, given that it was at times difficult to sell these bonds on the market, also aimed to facilitate the banks' liquidity supply. At the end of the year, the banks' long-term borrowing in Swedish kronor from the Riksbank amounted to SEK 265 billion. The banks' loans from the Riksbank in us dollars corresponded to SEK 196 billion.

Since the beginning of November, the banks have also been able to fund their lending to companies by using a credit facility at the Riksbank against collateral in securities newly issued by the companies. This credit facility is specifically intended to facilitate the supply of credit to companies. At the end of the year, the banks had used SEK 8 billion of this loan facility.

In order to safeguard financial stability and ensure the effective functioning of the financial markets, the Riksbank also provided special liquidity assistance to Kaupthing Bank Sverige AB and Carnegie Investment Bank AB during the autumn. Against the background of the unease on the financial markets, the Riksbank's assessment was that the suspension of payments by one of the banks could lead to a serious disruption in the financial system and undermine confidence in the payment system.

In addition, the Government has taken a range of measures designed to stabilise the financial system. For example, the National Debt Office, following consultation with the Riksbank, has increased the stock of treasury bills to meet the demand on the market. The income stemming from these issues has then been lent to the banks

DIAGRAM 9  
Differential between three-month interbank rates and expected repo rates in 2007 and 2008, basis points.



Note. In Sweden, the differential between three-month interbank rates and expected repo rates refers to the difference between the three-month Stibor and the overnight index swap (STINA) rates.

against collateral in mortgage securities. In this way, the National Debt Office has also made it easier for the banks to fund their lending to the public.

In November, the Government presented a guarantee programme of a maximum of SEK 1 500 billion to support the medium-term funding of the banks and mortgage institutions. At the end of the year, only one bank had joined this programme. The Government also set up a stability fund to handle any future solvency problems in Swedish institutions. In the consultation process, the Riksbank welcomed the proposals of the Ministry of Finance concerning measures to strengthen the stability of the Swedish financial system, the regulation on government guarantees for the banks and so on.

The financial crisis has clearly illustrated how closely linked the two statutory tasks of the Riksbank are. When the financial markets work ineffectively, the possibility to conduct an effective monetary policy is undermined. In such a situation, changes in the repo rate do not have the impact on the real economy that they normally have. The measures taken by the Riksbank in the autumn to promote the functioning of the markets thus also improved the possibilities to conduct effective monetary policy.

*The crisis has made clear how important it is that authorities and countries cooperate*

The financial crisis has demonstrated the need

for close cooperation at different levels between the Riksbank, the National Debt Office, Finansinspektionen and the Ministry of Finance. In the Riksbank's view, the cooperation between the authorities has worked well and has helped to make it possible to implement forceful measures to reduce the costs of the crisis to society.

The crisis has also made clear the need for coordinated international efforts on the part of authorities in different countries. For example, several central banks, including the Riksbank, entered into reciprocal currency arrangements (swap agreements) with the Federal Reserve with the aim of increasing the provision of us dollars. The Riksbank has a similar agreement with the European Central Bank regarding the provision of euros.

The Riksbank also decided to lend dollars to Swedish banks to deal with the strained situation in the market for borrowing in us dollars.

*The resilience of the banks high despite the financial crisis*

In 2008, uncertainty about the duration and seriousness of the financial crisis made it unusually difficult to make assessments of the economic situation and the earnings and losses of the banks in the period ahead. The rapid and unexpected deterioration in the financial crisis in the autumn after Lehman Brothers filed for bankruptcy prompted a sharp downward revision in the Riksbank's assessment of growth in Sweden and abroad. This was also reflected in the assessments in the Financial Stability Reports published in June and November. However, despite the slowdown in the economy and a fall in the banks' earnings in some cases, the Riksbank assessed on both occasions that the resilience of the major Swedish banks was still more than adequate to deal with the situation, even though resilience had declined somewhat since 2007. This assessment was based on the fact that the four major banks were financially strong, that credit losses were low (despite a slight increase during the latter part of the year) and that the ability of the banks' customers to service their loans was good.

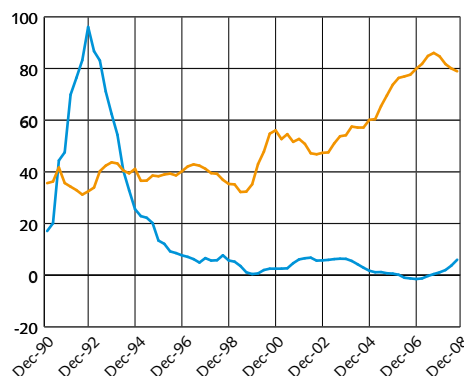
In the Financial Stability report published in June, the Riksbank assessed that the risk of the

DIAGRAM 10  
Profits before credit losses and net credit losses in the major banks, summarised over four quarters, SEK billion at 2008 prices.

— Profit before credit losses  
— Credit losses

Note. International Financial Reporting Standards applied from and including the first quarter 2005.

Sources: Bank reports and the Riksbank.



situation of the Swedish banks worsening in the period ahead had increased somewhat. One of the risks then identified was that the global financial crisis would continue to worsen and spread to more markets. This would reduce access to funding for the Swedish banks. It was also assessed that the risk of a substantial economic downturn in the Baltic region had increased somewhat over the preceding six months. Both of these risks materialised to some extent in the autumn, as described in the Financial Stability Report published in November.

In November, the Riksbank's assessment was that all of the risks identified in the Report have increased. This applied, for example, to the risks relating to the developments on the global financial markets. A worsening global financial crisis could thus have a negative impact on the Swedish banks both directly and indirectly and lead to substantial credit losses stemming from the corporate sector and from the operations of the Swedish banks in the Baltic region. Another risk that, in the Riksbank's assessment, had increased was the risk that the economic downturn would be more serious and more prolonged than expected in the Riksbank's forecast. If so, the economy could fall into a negative spiral with a decline in economic activity and a tighter supply of credit.

The results of all of the stress tests presented in the Financial Stability Report in November showed that the banks' resilience to unexpected events was still good. The test showed, for example, that the banks would cope with a significant economic downturn in Sweden and a significant decline in development in the Baltic

region even though their resilience had weakened somewhat from the first to the second half of the year. The banks would also cope with an extensive recession in Sweden, the Baltic region and internationally.

Alongside the two Financial Stability Reports published during the year, the members of the Executive Board of the Riksbank made several speeches in order to inform the public of their views on financial stability issues. In their speeches, the members of the Board also spoke about how the global financial crisis had spread and affected the Swedish financial system.

#### *Financial assistance for Iceland and Latvia*

The situation in several neighbouring countries during the year was marked by increasing uncertainty and turbulence. There was a risk that the financial crisis in Iceland would spread and create unease on the financial markets in Sweden and our neighbouring countries. A similar situation also arose in Latvia as a result of the country's economic problems.

In order to reduce the risk of the local financial crises having a negative impact on international confidence in the financial markets in Sweden and the surrounding region, the Riksbank offered the central banks in Iceland and Latvia short-term loans in euro in exchange for their domestic currencies. Other lenders also entered into similar agreements with the two countries. Together with the IMF's programmes for financial assistance to Iceland and Latvia, the loan agreements helped to provide a good basis for long-term macroeconomic and financial stability in these countries.



## Follow up

As long as the financial system can perform and maintain its basic functions it is stable. The Riksbank's assessment in the Financial Stability Report published in June was that financial stability in Sweden was satisfactory but that the prevailing risks had increased. Following several years with high profits, the assessment was nevertheless that the Swedish banks were well placed to deal with unexpected and negative events. In November too, the assessment was that the resilience of the Swedish banks was good.

Despite the fact that the Swedish banks were financially strong during the course of 2008 and had satisfactory resilience to unexpected events, they did experience problems in funding their operations on the market during the autumn. As a result of the global financial crisis, liquidity practically disappeared from the markets that the Swedish banks were dependent on. In the November Report, the Riksbank's assessment was therefore that the stability of the Swedish financial system could only be maintained thanks to the measures that the Swedish authorities took during the autumn.

The Riksbank, in common with other authorities in Sweden and abroad, did not foresee that the global financial crisis would have such serious consequences even for financially-strong banks with limited exposure to institutes and instruments in crisis, even though in several earlier reports the Riksbank had highlighted the risk that previously depressed risk premiums could rise very quickly and that liquidity on the financial markets could thus decline. When the turnaround came, however, the process was much quicker than could have been predicted. In pre-

vious Financial Stability reports, the Riksbank had also discussed the risks on the US mortgage market, as well as the difficulties involved in assessing credit and liquidity risks in securities with complex underlying assets. The Riksbank had also highlighted the risks that developments in the Baltic region pose to the Swedish banks in previous reports. The extent of the financial crisis – that it would be so internationally widespread and lead to liquidity problems even for financially-strong banks – was, on the other hand, impossible to foresee. It was also impossible to foresee that the turnaround in economic activity in the Baltic region would take place at the same time as a global downturn and financial crisis.

### *The Swedish financial infrastructure functioned well during the financial crisis of the autumn*

The Riksbank continually oversees the systems in the Swedish financial infrastructure that it believes are critical to the functioning and stability of the financial system. This involves, for example, conducting annual evaluations of payment systems and systems for trading in financial instruments in the light of internationally-adopted principles. These evaluations are published on the Riksbank's website. The results of the evaluations conducted in 2008 show that the security and reliability of the Swedish financial infrastructure was good.

During the autumn of 2008, the crisis led to a larger number of transactions in some of the systems overseen by the Riksbank (Nasdaq OMX DM, CLS and VPC). However, the increased number of transactions did not affect the functionality of the systems to any great degree. The transaction flows passed through the systems in the same way as previously.

## Measures taken by the Riksbank and other Swedish authorities during the financial crisis in autumn 2008

- **16 May** The Riksbank announces that Sweden, Norway and Denmark have entered into a euro/Icelandic krona swap agreement with the Central Bank of Iceland, Seðlabanki Íslands. The Riksbank's part of the swap agreement amounts to EUR 500 million. The aim is to support the Icelandic central bank in its efforts to safeguard macro-economic and financial stability.
- **18 September** The Swedish National Debt Office announces that after consultation with the Riksbank it has decided to issue a large volume of short-term treasury bills. The money from the extra auctions will be loaned in the form of so-called reverse repos with mortgage securities as collateral. Two issues of SEK 25 billion each are announced for 19 September and 23 September, and further issues are signalled. It is estimated that the total issued volume will be a maximum of SEK 150 billion.
- **22 September** The Riksbank decides to increase credit facilities in the RIX payment system. The permitted percentage of covered bonds from an institution with close links to the counterparty concerned that can be used as collateral in the system is increased from 25 per cent to 75 per cent.
- **22 September** The Swedish National Debt Office announces several extra auctions of treasury bills on 25 September, 26 September, 30 September and 3 October.
- **24 September** The Riksbank announces together with several other central banks that it will set up temporary reciprocal currency arrangements (swap facilities) with the Federal Reserve with the aim of dealing with the strained situation on the markets for short-term borrowing in US dollars. These arrangements mean that the Riksbank and the Federal Reserve have agreed on a swap facility amounting to USD 10 billion.
- **29 September** The Riksbank announces a new loan facility in USD. Two auctions, on 1 October and 22 October, are announced. The Riksbank and the Federal Reserve have also agreed to increase the previous swap facility to USD 30 billion.
- **30 September** The Swedish National Debt Office announces further dates for extra issues of treasury bills.
- **1 October** The auction for USD 7 billion with a term of one month is over-subscribed.
- **2 October** The Riksbank sets up a loan facility in kronor with the aim of increasing access to longer-term loans. A first auction is announced for 6 October comprising SEK 60 billion for loans with terms of three months and against collateral. A further auction for loans with terms of three months but without a fixed amount is announced for 27 October 2008.
- **6 October** The Government presents a bill that proposes increasing the deposit guarantee for transaction accounts for SEK 250 000 to SEK 500 000. It is also proposed that the deposit guarantee is extended to cover all types of deposit in accounts irrespective of whether the savings are fixed or can be withdrawn freely.
- **6 October** The Riksbank announces that it has decided to lend more money to the banks. The sum in the auction on 6 October is increased from SEK 60 billion to SEK 100 billion. The auction, which is held later the same day, is over-subscribed. A further auction is also announced for 8 October comprising SEK 100 billion with a maturity of six months.
- **8 October** The Riksbank reduces the repo rate from 4.75 per cent to 4.25 per cent in a coordinated action with a number of other central banks.
- **8 October** The Riksbank once again changes the collateral requirements for credit in the RIX system. The permitted percentage of covered bonds from an institution with close links to the counterparty concerned that can be used as collateral in the system is increased from 75 per cent to 100 per cent. At the same time, it is also decided to lower the minimum credit rating requirement for longer-term securities pledged as collateral.
- **8 October** The Riksbank provides special liquidity assistance with a loan of up to SEK 5 billion to Kaupthing Bank Sverige AB.
- **8 October** The Riksbank's auction of SEK 100 billion is not fully-subscribed. SEK 66.5 billion is loaned with a maturity of six months.
- **9 October** Finansinspektionen announces that it is prepared to change the regulations governing the calculation of the discount rate for life insurance companies. The aim is to make it possible for life insurance companies to increase their investments in mortgage bonds.
- **10 October** The Riksbank decides to issue Riksbank Certificates, beginning on 14 October. The Riksbank Certificates will have a maturity of seven days and be issued at the repo rate. The aim is to create an additional way of drawing in the surplus liquidity in the banking system that the Riksbank's SEK loans at maturities of three and six months have created and to provide the banks with a further instrument for managing liquidity.
- **13 October** The Riksbank announces that it will auction off an additional USD 10 billion on 15 October and SEK 80 billion on 16 October. Both loans will have a maturity of three months.

- **14 October** The first issue of Riksbank Certificates is conducted. The issue is not fully-subscribed. Of the announced SEK 164 billion in Riksbank Certificates approximately 33 per cent, or SEK 55 billion, is subscribed.
- **15 October** The Riksbank's USD auction is over-subscribed. USD 10 billion is loaned, against collateral, for three months.
- **16 October** The Riksbank's auction of SEK 80 billion is not fully-subscribed. SEK 13.5 billion is loaned, against collateral, for three months.
- **16 October** The Swedish National Debt Office announces that it will continue issuing treasury bills in extra auctions. Issues of SEK 5 billion each will be made on 17 October, 21 October, 24 October, 27 October and 4 November. After this the Swedish National Debt Office will hold at least one extra auction per week.
- **16 October** Finansinspektionen proposes a change in the regulations governing the calculation of the discount rate for, primarily, insurance allocations made by life insurance companies and occupational pension funds. The change aims to stimulate an increased supply of interest-bearing securities with long maturities.
- **20 October** The Government presents a stability plan to safeguard the stability of the financial system. The plan includes a guarantee programme comprising a maximum of SEK 1 500 billion to support the medium-term funding of the banks and mortgage institutions, as well as a stability fund to handle any future solvency problems in Swedish institutions. The Government intends to allocate SEK 15 billion to the stability fund. A special stability fee will be charged to all credit institutions in Sweden. The aim is that the stability fund – together with the deposit guarantee fund – will amount to an average of 2.5 per cent of GDP within 15 years.
- **22 October** The Riksbank's auction for USD 10 billion is over-subscribed.
- **22 October** The Riksbank gives notice that the previously-announced auction for three-month loans on 27 October will cover SEK 80 billion.
- **23 October** The Riksbank cuts the repo rate from 4.25 per cent to 3.75 per cent.
- **24 October** The Riksbank announces that it will auction a further USD 7 billion on 28 October to replace a previous loan that has fallen due. The loan term will be 28 days.
- **24 October** The Riksbank announces that it will offer three-month loans in SEK in a programme of regular auctions. The loans will be offered at regular intervals of approximately two weeks, starting on 10 November. The exact terms for each auction will be published at least two days prior to the auction. The announced sum will be set taking into account the prevailing market conditions and the outcome of previous auctions.
- **27 October** The Riksbank grants special liquidity assistance with a credit of SEK 1 billion to Carnegie Investment Bank AB.
- **27 October** The Riksbank's auction of SEK 80 billion is not fully-subscribed. SEK 3.5 billion is loaned, against collateral, for three months.
- **28 October** The Riksbank grants increased special liquidity assistance to Carnegie Investment Bank AB. The liquidity assistance, including the SEK 1 billion granted earlier, will at maximum amount to SEK 5 billion.
- **28 October** The third issue of Riksbank Certificates is conducted. The issue is not fully-subscribed. The volume allocated is SEK 74.2 billion.
- **28 October** In the Riksbank's auction of USD 7 billion, the volume allocated is USD 4.8 billion.
- **29 October** The Riksdag decides to extend the deposit guarantee in accordance with the Government's proposal. The changes in the deposit guarantee will apply from 6 October.
- **29 October** The Riksbank announces that it is establishing a new temporary credit facility in which the banks can use commercial paper with a maturity of up to one year as collateral to a greater extent than before. The purpose of the new credit facility is to facilitate the supply of credit for non-financial companies. The new credits will be supplied in auctions. The first auction will be held on 5 November and consist of SEK 40 billion for a loan of three months. After this the plan is for the auctions to be held regularly at two-week intervals.
- **30 October** The Swedish National Debt Office has issued treasury bills to a total value of SEK 108.5 billion in September and October within the framework of the programme published on 18 September.
- **31 October** The Swedish National Debt Office stipulates guarantee charges that the four major banks will pay to receive government guarantees on individual loans.
- **4 November** The Swedish National Debt Office announces that it intends to replace part of the extra issues of treasury bills with "normal" issues of treasury bills.
- **4 November** The Riksbank issues Riksbank Certificates. The volume allocated is SEK 82.5 billion.
- **5 November** The Riksbank holds auctions of SEK loans with commercial paper as collateral. The total announced sum is SEK 40 billion. Bids totalling SEK 4.5 billion are received, which is also the volume allocated.

- **6 November** The Swedish National Debt Office announces that it will continue issuing treasury bills in extra auctions.
- **10 November** The Government increases support to Swedish companies by allocating SEK 2 billion to Almi företagspartner AB and SEK 3 billion to AB Svensk Exportkredit (the Swedish Export Credit Corporation). The aim is to facilitate borrowing for companies in the export sector and for small and medium-sized companies in general.
- **10 November** The Riksbank's SEK auction is not fully-subscribed. A total of SEK 60 billion was announced and total bids of SEK 15 billion are received, which is also the volume allocated.
- **10 November** Finansinspektionen revokes the licence of Carnegie Investment Bank AB to conduct banking operations. The Swedish National Debt Office grants Carnegie a loan of a maximum of SEK 5 billion. This loan replaces the special liquidity assistance the Riksbank had earlier granted to Carnegie. The National Debt Office takes over Carnegie which thereby recovers its licence to conduct banking operations.
- **10 November** Finansinspektionen decides to change the regulations governing the calculation of the discount rate in accordance with the proposal from 16 October.
- **11 November** The Riksbank's issue of Riksbank Certificates is not fully-subscribed. The volume allocated is SEK 70.5 billion.
- **18 November** The Riksbank's issue of Riksbank Certificates is not fully-subscribed. The volume allocated is SEK 82 billion.
- **19 November** The Riksbank's second auction of SEK loans with commercial paper as collateral is not fully-subscribed. The total announced sum was SEK 40 billion. Bids totalling SEK 1 billion are received, which is also the volume allocated.
- **20 November** The Riksbank and the central banks in Denmark and Norway extend the swap agreement entered into with Seðlabanki Íslands on 16 May following the IMF's approval of a programme for financial assistance to Iceland on 19 November. The IMF's programme, together with loans from a number of other lenders, provides the funding that Iceland needs in the longer term. The loans granted by the Riksbank represent short-term funding to help stabilise the financial situation in Iceland.
- **21 November** The Swedish National Debt Office begins the process of selling the State's shares in Carnegie Investment Bank AB and the insurance broker Max Matthiessen Holding AB.
- **24 November** The Riksbank's SEK auction is not fully-subscribed. A total of SEK 40 billion was announced. Bids totalling SEK 6 billion are received, which is also the volume allocated.
- **26 November** The Riksbank's USD auction is over-subscribed. The total sum loaned amounts to SEK 5 billion.
- **2 December** The Riksbank announces that the previously announced SEK auction against collateral in commercial paper will be moved from 3 December to 5 December. This is because the publication of the monetary policy decision has been brought forward to 4 December.
- **3 December** The Swedish National Debt Office announces that in the future it will be able to sell covered mortgage bonds forward with clearing in Nasdaq OMX in order to increase flexibility in the handling of surpluses invested in, for example, mortgage bonds.
- **4 December** Riksbank cuts the repo rate from 3.75 per cent to 2.0 per cent.
- **5 December** The Riksbank's third auction of SEK loans with commercial paper as collateral is not fully-subscribed. The total announced sum was SEK 40 billion. Bids totalling SEK 1 billion are received, which is also the volume allocated.
- **8 December** The Riksbank's third auction in the programme for SEK loans to monetary policy counterparties is not fully-subscribed. A total of SEK 40 billion was announced and total bids of SEK 34 billion are received, which is also the volume allocated.
- **9 December** While awaiting a decision on official charge levels from the European Central bank, the National Debt Office decides to set charges for the so-called standard method in the government guarantee programme for the banks.
- **16 December** The Riksbank and Danmarks Nationalbank (the central bank of Denmark) enter into a swap agreement under which the central bank of Latvia, Latvijas Banka, may borrow up to EUR 500 million against collateral in Latvian lats.
- **17 December** The Riksbank's fourth auction of SEK loans with commercial paper as collateral is not fully-subscribed. The total announced sum was SEK 40 billion. Bids totalling SEK 1.3 billion are received, which is also the volume allocated.
- **19 December** The Riksbank's fourth auction in the programme for SEK loans to monetary policy counterparties is not fully-subscribed. A total of SEK 60 billion was announced and total bids of SEK 18.5 billion are received, which is also the volume allocated.
- **19 December** The Riksbank announces that it will continue to offer loans in US dollars to its primary monetary policy counterparties after the turn of the year to replace the loans maturing on 9 and 16 January respectively. Loans totalling USD 20 billion will be offered.



## The Rix Payment System

The Riksbank owns and operates the RIX system, which forms the hub of the Swedish payment system. Almost all of the SEK payments that are not made internally within an individual bank are handled in the RIX system. RIX is therefore of strategic importance to the Swedish financial system. The turnover per week, approximately SEK 2 700 billion, almost corresponds to Sweden's total GDP, that is the value of all the goods and services produced within the country in the course of a year.

In order to increase the efficiency of the payment system, the Riksbank adds liquidity during the day by granting credit to the participants against collateral. This collateral mainly consists of Swedish and foreign securities but may also be foreign currency.

RIX must function for the banks to be able to manage their payments. The Riksbank has therefore set clear objectives to guarantee that RIX is safe and efficient. The first objective is that RIX must be accessible 99.85 per cent of the time, over the course of a calendar year, when the system is open. RIX has also been equipped with contingency procedures that ensure that crucial payments can be handled if the system is not functioning. The second objective is that at least 80 per cent of the participants must be satisfied.

It is also the explicit ambition of the Riksbank that all of the costs relating to the provision of services in RIX should be covered by charges paid by the participants. This means that the Riksbank, as a user of RIX, also pays charges to the system in accordance with the same principles as the other participants. The charges do not,

however, cover the costs of special functions in RIX that support the Riksbank's monetary policy management system. The Riksbank meets these costs. The principles for pricing the services provided by RIX will be applied in full from and including 1 January 2009.

### *Activities in 2008*

RIX had 20 participants at the end of 2008, including the four major banks and the clearing houses. This was one participant fewer than in 2007.

During the year, the number of payments handled in RIX averaged 8 000 per day, which was an increase of 4 per cent compared with the previous year. The daily turnover averaged SEK 545 billion, which was 11 per cent higher than in 2007. However, the turnover was affected by transactions conducted during the final quarter of 2008 that related to credits provided by the Riksbank as a result of the financial crisis. If these transactions are discounted, the turnover in the RIX system was at approximately the same level as in 2007.

On average, the participants provided collateral to a value of SEK 154 billion each day. Given the course of events on the financial markets, the Riksbank decided in the autumn of 2008 to approve more types of security as collateral for credit from the Riksbank. The changes also entailed a harmonisation of the Riksbank's collateral requirements with those applied within the Eurosystem.

In 2004, the Riksbank decided to acquire a new technical system for RIX. The new system was to be commissioned in February 2007, but due to delays on the part of the supplier the start-up date was postponed to 6 October 2008. The Riksbank conducted extensive tests together with the RIX participants and was well prepared to begin using the new system.

However, the new launch date coincided with the aggravation of the financial turbulence in Sweden. After consulting the major RIX participants, the Riksbank therefore decided on 1 October 2008 to postpone the commissioning of the new system. This decision was entirely due to the ongoing financial crisis. As risks always



increase when a new system comes into operation, the Riksbank believed that it was inappropriate to take risks that could increase the turbulence on the financial markets if a disruption occurred in the new system.

It was decided to commission the system in February 2009 instead. Together with the RIX participants, the Riksbank conducted an inventory of the measures required to ensure that the new start-up date can be met even if further market disruptions occur at the same time. The Riksbank also took the day-to-day measures required to ensure the ongoing operation of the current RIX system.

### *Follow-up*

All in all, the payment system functioned relatively well in 2008. The only breakdown during the year lasted just over six hours and meant that the day's payments were not fully settled until 13.30 the following day, which was a Saturday. The incident was caused by a fault in the Riksbank's internal network. This disruption led the Riksbank and the RIX participants to upgrade the contingency procedures. The Riksbank also changed the network structure so that the technical equipment that caused the fault was replaced by equipment that radically reduces the risk of such breakdowns occurring in the future.

RIX was accessible during 99.73 per cent of the system's opening hours. This is somewhat below the target of 99.85 per cent, which is due to the breakdown mentioned above.

No survey of the RIX participants' views on the system was conducted in 2008. The next survey will be carried out when the new system has been in operation for several months, that is in the autumn of 2009.

The reported costs for RIX during the year exceed the estimated costs on which the debiting of charges for the system was based. This is partly because costs relating to the handling of collateral had not been included as part of the basis for determining the charges. The distribution of certain internal, joint costs was also changed. Some costs arising from the postponement of the commissioning of a new technical system for RIX also burdened the result for 2008.

These costs will be recouped as charges for the system in 2009.

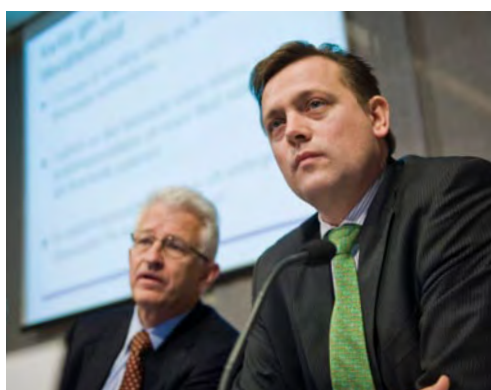
## Cash Management

The Riksbank is responsible for providing Swedish banknotes and coins. This means that the Riksbank supplies banknotes and coins, destroys banknotes and coins that can no longer be used and accepts banknotes that are no longer legal tender.

The objective of the Riksbank's activities in this field is that cash management should be safe and efficient. The participants in the cash management process should have confidence in the Riksbank. The public should also have a high degree of confidence in banknotes and coins.

The Riksbank supplies cash to the banks via its two branches for cash management. The banks then distribute the cash to the retail sector and the public via their depots around the country. The actual distribution is carried out by the cash-in-transit companies.

The infrastructure for cash management has been under development for several years, with the setting up of private bank depots for cash returns and cash purchases. The Riksbank initiated this development by offering the banks compensation for their costs for storing cash.



During the autumn, the Riksbank provided special liquidity assistance to Kaupthing Bank Sverige AB and Carnegie Investment Bank AB to promote financial stability and safeguard the functioning of the financial market.

The new infrastructure is now established and twelve private depots have been set up so far.

### Activities in 2008

The average value of cash in circulation in 2008 was SEK 107.7 billion. This is a fall of 1.6 per cent compared with the previous year, which is a reversal of the earlier trend in which cash in circulation has increased from year to year. This change indicates that the cash flows in society have become more efficient and is probably due to the gradual expansion of the new infrastructure with private depots. In addition, the increased use of charge cards in the retail sector has probably helped to reduce the amount of cash in circulation.

The average value of the banknotes in circulation was SEK 101.8 billion. The most common denomination was the SEK 500 banknote. This note represented about 27 per cent of the total number of notes and 52 per cent of the total value of the notes in circulation (on average during the year).

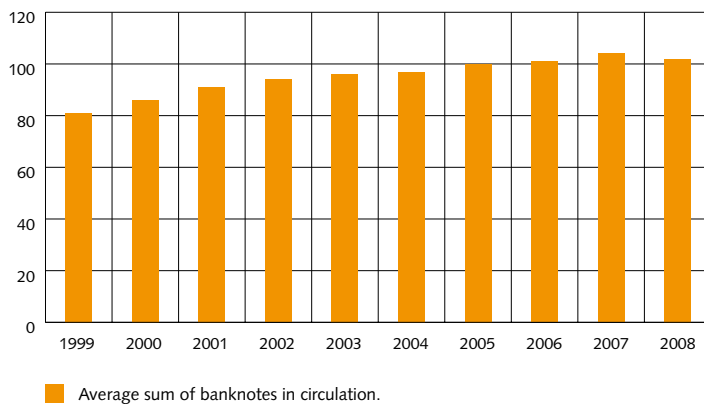
The average value of the coins in circulation was SEK 5.9 billion. The most common denomination was the SEK 1 coin. This coin represented about 60 per cent of the number of coins in circulation and 22 per cent of the total value of the coins in circulation (on average during the year).

In March, the Riksbank began an in-depth review of the Swedish banknote and coin series. The aim is to develop an efficient, environment-friendly and secure banknote and coin series. A report with facts on banknotes, coins and the use of cash was produced as a starting point for the next stages of the work in 2009. The report noted that payments using notes and coins still account for a large part of all payments. Another conclusion was that the SEK 500 banknote is becoming increasingly important and now accounts for more than half of the value of the banknotes in circulation. The Riksbank also investigated whether there is a need to retain the 50-öre coin or whether it can be abolished. The Executive Board of the Riksbank decided to propose to the Riksdag that the 50-öre coin should cease to be legal tender on 30 September 2010.

The Riksbank issued two commemorative coins in 2008 to celebrate the 150th anniversary of the birth of Selma Lagerlöf. The commemorative coins were issued in gold with the denomination SEK 2 000 and in silver with the denomination SEK 200.

DIAGRAM 11

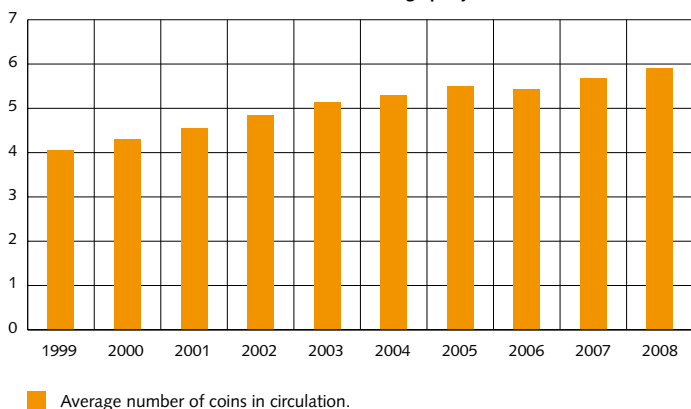
Value of banknotes in circulation 1999–2008, average per year, SEK billion.



Source: The Riksbank.

DIAGRAM 12

Value of coins in circulation 1999–2008, average per year, SEK billion.



Source: The Riksbank.

In 2007, the Riksbank decided that from and including 1 January 2009 it would be possible to use circulation coins instead of commemorative coins to celebrate and draw attention to events of national importance. In February 2008, the Riksbank thus decided to commemorate the 200th anniversary of the peace treaty of 1809, when Finland was separated from the Kingdom of Sweden, by minting a special motif on one side of the SEK 1 coin. Work on producing this coin was conducted throughout the year.

The Riksbank's cash management advisory board held two meetings during the year. The board, which is headed by the Governor of the Riksbank, Stefan Ingves, includes representatives of the banks, bank depots, security transport companies, trade unions and the relevant authorities. The issues addressed by the board in 2008 included the expansion of the depots, the Riksbank's review of the banknote and coin series and the increase in the number of security transport robberies. The board also discussed the ongoing Government inquiries which may lead to changes in the legislation in order to increase the security of cash management.

### Follow-up

The new infrastructure for cash management increased the efficiency of the cash flows. The volume of cash purchases and cash returns from the banks to the Riksbank was smaller than previously and the value of cash in circulation was less in 2008 than in 2007.

The Riksbank receives regular updates on how cash management is functioning outside the Riksbank from the cash management advisory board and the working groups linked to the board. The Riksbank thus receives information on how the market participants view the functioning of the cash management system and whether there is confidence in Swedish banknotes and coins as a means of payment.

There was relatively little counterfeiting of Swedish banknotes in 2008. The value of the counterfeit notes removed from circulation during the year amounted to SEK 364 720, which is a slight increase compared with 2007. The Riksbank's assessment is that the security of cash management in general was good in 2008.

Table 2

<b>Banknotes and coins</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Average value of banknotes and coins in circulation (SEK billion)	102.7	105.6	106.5	109.5	107.7
Average value of banknotes in circulation (SEK billion)	97.4	100.1	101.1	103.8	101.8
Average value of coins in circulation (SEK billion)	5.3	5.5	5.4	5.7	5.97
Number of banknotes in circulation (millions)	359	366	372	390	392
Number of coins in circulation (million)	2 174	2 240	2 071	2 047	2 168
Number of counterfeited banknotes	2 054	1 849	996	1 248	1 512

Source: The Riksbank.



## ■ Asset management

The market value of the Riksbank's financial assets was SEK 232.6 billion at year-end, with a return of SEK 18.3 billion, excluding exchange rate effects. The tactical asset management contributed SEK 191.8 million to this return, which exceeds the target level by a considerable margin. The measures the Riksbank took during the year to deal with the financial crisis affected the scope of asset management and helped to more than triple the Riksbank's balance sheet.

The Riksbank primarily manages financial assets to ensure that the Bank can fulfil its statutory objectives and tasks: to implement monetary policy, be prepared to intervene in the foreign exchange market and be able 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 possible 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 Riksbank takes decisions on the strategic focus of asset management operations. It determines how to allocate the various currencies and assets, as well as the average duration for assets in the currency reserve. In this context the Riksbank also takes decisions on how large the tactical deviations may be; in other words, the size of the deviations from the strategic management that the managers may make to obtain a higher return. The tactical management is evaluated in relation to an internal comparative index.

Table 3  
Allocation of currencies and assets in the currency 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.

Marcus Larsson, Lars Åström  
and Pernilla Wasén.



### THE RIKSBANK'S FINANCIAL ASSETS

The Riksbank's assets comprise the gold and currency reserve, any assets associated with the Riksbank's monetary policy operation and other financial assets (see Diagram 13).

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

Since the currency reserve consists of foreign currencies, there is an exchange rate risk that affects the Riksbank's earnings. To reduce this risk the Riksbank holds a number of currencies in securities with high liquidity and not merely in the currencies mainly used for interventions in the foreign exchange market or for liquidity assistance (euro and US dollars).

Since the market for Norwegian government bonds is relatively small and has low turnover, the Riksbank has chosen not to invest directly in the Norwegian bond market. The Riksbank is investing instead in us bonds, in which the currency risk is swapped into Norwegian kroner in the currency derivative market. In other respects, the Riksbank's asset allocation is in line with the currency allocation (see Table 3).

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 currency reserve, and therefore a certain holding of gold may reduce the total variation in market values.

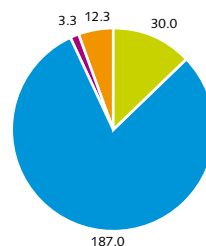


DIAGRAM 13

Asset management portfolios, SEK billion.



Source: The Riksbank.

In order to implement its monetary policy, the Riksbank also usually holds Swedish kronor, known as monetary policy assets. These are normal assets that have a short term and are used to steer short-term interest rates in Sweden. They consist of receivables on the Swedish banks, backed by collateral – the monetary policy repo. The size of the repo depends on how much the banks jointly need to borrow from the Riksbank.

During the autumn the situation was different. The Riksbank needed to absorb the excess liquidity in the banking system created by the Riksbank's lending in Swedish kronor with terms of three and six months. During the financial crisis the system was therefore "reversed" – the Riksbank withdrew Swedish kronor via short-term loans and by issuing Riksbank Certificates.

The Riksbank's other financial assets involve claims on the International Monetary Fund (IMF).

### THE FINANCIAL REGULATORY STRUCTURE AND THE MANAGEMENT OF RISKS

The Riksbank 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 respon-

#### Goal

According to the operational plan, the objective for asset management is to achieve a good, risk-adjusted, net return in the tactical management of the Riksbank's assets. Asset management should also be cost effective.

#### Results

Tactical management yielded a very high return in 2008. The return was SEK 192 million at the end of the year, which is SEK 117 million higher than the target for the year. The capital management costs were in line with those of comparable asset managers.

sible for day-to-day risk management and calculation of the return on the Riksbank's assets. There is also a risk control unit that is responsible for overall risk control, but is organisationally distinct and has an independent position.

The Riksbank's asset management involves financial risks in the form of market risks and credit risks. Market risk comprises exchange rate risks, interest rate risks and gold price risks. Exchange rate risk is the risk that the market value of the Riksbank's assets in Swedish kronor

declines when the value of the Swedish krona increases in relation to the currencies in the currency reserve. The Riksbank tries to minimise this risk by spreading its assets over several currencies. Interest rate risk is the risk that the value of assets is negatively affected by changes in interest rates. 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 due to someone making a mistake or doing something that is not permitted, or a fault 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 of time 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 currency 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.

## Seigniorage

The Riksbank issues banknotes and coins that are used in Sweden as legal tender. The nominal value of these banknotes and coins is reported as a liability on the Riksbank's balance sheet. The Riksbank does not pay interest on this liability to those who hold these notes and coins. However, the Riksbank uses the difference between the nominal value of the banknotes and coins in circulation and the cost of cash management to acquire financial assets. These assets generate income, which is called seigniorage. In other words, seigniorage is the return on the Riksbank's assets corresponding to notes and coins in circulation, less the Riksbank's total cost of cash management.

However, the liability side of the Riksbank's balance sheet consists of other items in addition to banknotes and coins – mainly shareholders' equity. Since the Riksbank does not link certain assets to the item banknotes and coins, the exact amount of the seigniorage cannot be calculated. The most accurate method is therefore to calculate the seigniorage and multiply the note and coin proportion of the balancesheet total by the return realised on total assets, and then subtract the cost of cash management from the product. The note and coin proportion of the balancesheet total corresponds to the average quantity of banknotes and coins in circulation during one year in relation to the Riksbank's average balance sheet that same year. Furthermore, the realised return on total assets is the sum of the Riksbank's interest income and the realised profits or losses as a result of changes in prices, exchange rates and the value of gold during the year. The basis for calculating seigniorage can be found in the Riksbank's balance sheet and profit and loss account and in the reporting of the bank's administrative expenses allocated by core function.

The Riksbank's seigniorage for 2008 is SEK 4 970 million, which corresponds to a yield of 4.6 per cent.

## Activities in 2008

The global financial crisis during the autumn increasingly affected the Swedish financial system. The major banks in Sweden found it more and more difficult to obtain financing in the foreign markets. As a result the Riksbank carried out several measures to counteract the banks' problems with financing and access to credit in the economy. A summary of the measures that the Riksbank and other Swedish authorities took

during the 2008 financial crisis is presented in the section “A safe and efficient payment system”.

## MONETARY POLICY OPERATIONS

### *Structural operations*

During the year the Riksbank mainly worked on securing financing for the Swedish banks by offering loans against collateral at longer maturities than usual, mainly with maturities of three and six months. The Riksbank held auctions of loans in Swedish krona against standard collateral (mainly mortgage bonds during the autumn), as well as auctions for loans linked directly to collateral in commercial papers. The purpose of the latter measure was to indirectly (via the banks) address the liquidity problems of the Swedish non-financial companies that issued commercial papers. The Riksbank's expanded lending in Swedish kronor resulted in excess liquidity in the interbank market, which was absorbed in part through the fine-tuning operations that the Riksbank implements daily and in part by issuing Riksbank Certificates with a maturity of one week.

Further, the Riksbank supplied the Swedish banking system with liquidity in the American currency by offering loans in us dollars against collateral, mainly in mortgage bonds. In order to lend us dollars to its Swedish counterparties, the Riksbank leveraged the currency reserve and entered into swap facility agreements with the Federal Reserve. With these swap facilities, the Riksbank exchanged Swedish kronor for us dollars and simultaneously undertook to return the same amount in us dollars for Swedish kronor at a set date in the future.



On 8 October, the Riksbank cut the repo rate by 0.5 percentage points in a joint action with several other central banks to mitigate the effects of the global financial crisis and increase confidence in monetary policy. This was the first time the Riksbank participated in an internationally-coordinated alteration of policy rates.

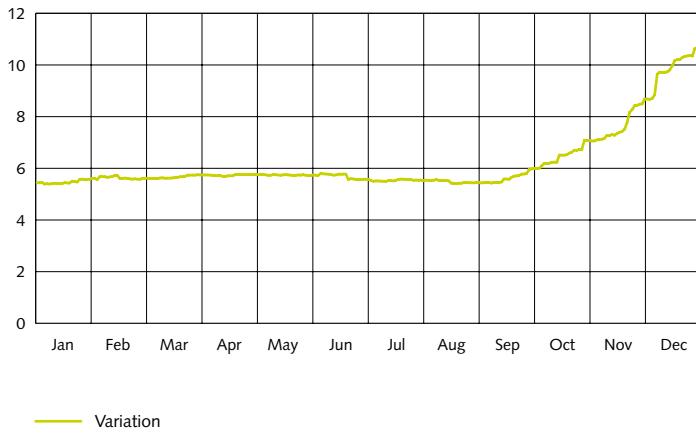
### *Loans to foreign central banks*

During the year the Riksbank entered into swap agreements with the central banks of Iceland and Latvia. The agreements entitled the two countries to borrow euro against collateral in Icelandic kroner and Latvian lats, respectively. The Riksbank leveraged the currency reserve to finance the loans to Iceland and Latvia.

## LOANS ON SPECIAL TERMS AND CONDITIONS

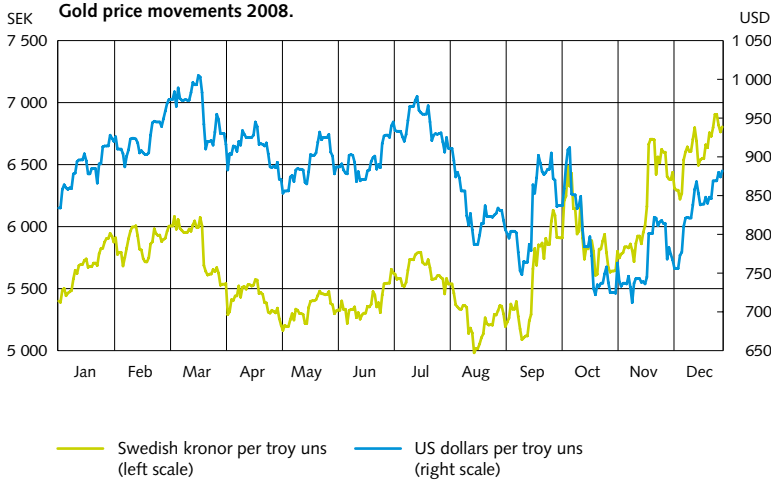
During the autumn the Riksbank provided special liquidity assistance to Kaupthing Bank Sverige AB and Carnegie Investment Bank. The Swedish National Debt Office took over the loan to Carnegie on 10 November 2008. Even this loan in Swedish kronor resulted in excess liqui-

DIAGRAM 14  
Variation in gold and currency reserve earnings in Swedish kronor, 2008, per cent.



Source: The Riksbank.

DIAGRAM 15  
Gold price movements 2008.



Note. One troy ounce is equivalent to about 31 grams.

Source: The Riksbank.

dity in the interbank market. The Riksbank withdrew the surplus liquidity in part through the fine-tuning operations carried out daily and in part by issuing Riksbank Certificates with a maturity of one week.

### STRATEGIC MANAGEMENT

For 2008 the Riksbank decided to maintain the currency and asset allocations introduced in 2006 (see Table 3).

#### *Currency reserve*

The Riksbank 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 currency reserve may be modified by 4 per cent if the interest level changes by one percentage point.

Since the average term for the currency reserve is relatively long – four years – the Riksbank expects to receive a higher return in the long term. One effect of the long maturity is that the interest rate risk is somewhat higher and there may be somewhat greater variation in the result of the annual management.

#### *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. Gold sales are regulated by the Central Bank Gold Agreement, an agreement between central banks regarding the quantity of gold they may sell during the gold year, which begins on the last business day in September and continues for one year forward. For the 2007/08 gold year the Riksbank decided to sell 10 tonnes of gold. The sales level for the 2008/09 gold year was raised



to 15 tonnes, which means that 2008 sales totalled 11.75 tonnes. The revenues from this sale were reinvested in interest-bearing assets in the currency reserve.

### TACTICAL MANAGEMENT

For 2008, the Riksbank decided to keep the mandate for risk-taking in asset management implemented in tactical management operations in 2007. The risks could not exceed SEK 600 million, measured in annual relative VaR, with a return target of SEK 75 million. The Riksbank also decided that tactical management operations would be suspended if losses exceeded SEK 250 million.

### Follow-up

#### RETURN AND BALANCE SHEET TOTAL AS A RESULT OF MONETARY POLICY OPERATIONS

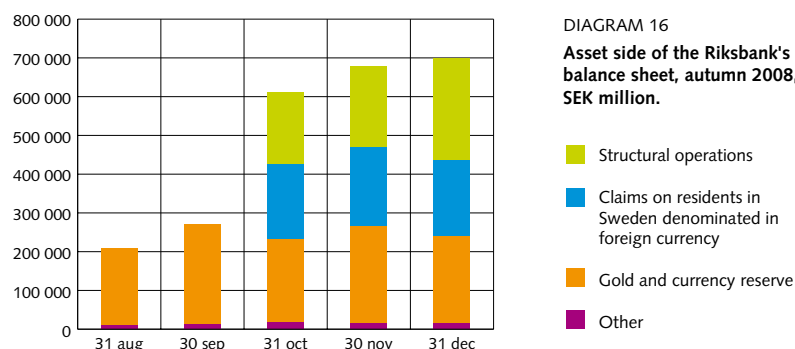
Taken together, the Riksbank's measures to deal with the financial crisis more than tripled the balance sheet total. This means that the Riksbank's balance sheet total increased by SEK 457 billion between the end of August and the end of December (see Diagrams 16 and 17). The various loan transactions denominated in both Swedish kronor and foreign currency were almost equally responsible for this increase. The large expansion of the balance sheet total occurred extremely rapidly during the autumn.

Table 4  
Return on monetary policy operations, 2008, SEK million

	Market value assets	Market value liabilities	Market value net	Return
Structural operations	463 888	-452 442	11 445	838
Lending, Swedish kronor	267 101	-255 656	11 445	769
Lending, US dollars	196 786	-196 786	0	70
Loans to foreign central banks	4 029	-4 862	-834	4
Iceland	1 645	-1 997	-352	2
Latvia	2 384	-2 865	-481	2
Loans on special terms and conditions	1 670	0	1 670	43
Kaupthing	1 670	0	1 670	38
Carnegie	0	0	0	5
Monetary policy assets	0	0	0	91
Total	469 587	-457 304	12 282	976

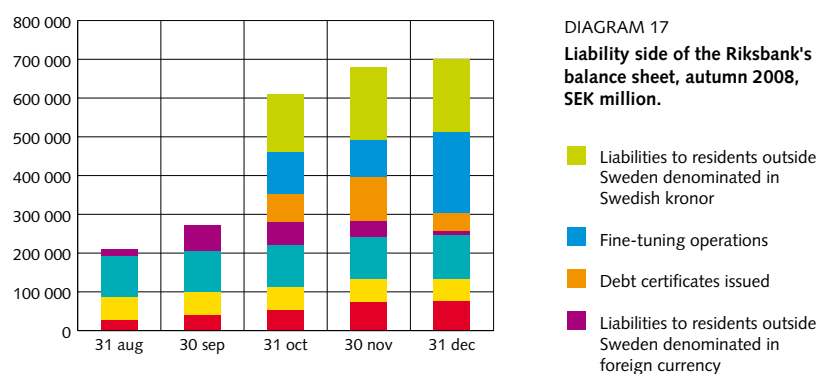
Note. Market values for assets and liabilities in the item Loans to foreign central banks is off-balance; in other words, is not on the balance sheet. Loans to foreign central banks are recognised in the balance sheet only at market value net.

Source: The Riksbank.



Note. The item Other includes receivables from the IMF, primarily refinancing operations, fine-tuning operations, marginal lending facilities and other assets.

Source: The Riksbank.



Note. The item Other includes liabilities denominated in Swedish kronor to other residents in Sweden, deposit facility, liabilities denominated in foreign currency to residents in Sweden, other liabilities, provisions, revaluation accounts, counterpart of Special Drawing Rights allocated by the IMF and result for the period.

Source: Riksbank.

DIAGRAM 16

Asset side of the Riksbank's balance sheet, autumn 2008, SEK million.

- Structural operations
- Claims on residents in Sweden denominated in foreign currency
- Gold and currency reserve
- Other

DIAGRAM 17

Liability side of the Riksbank's balance sheet, autumn 2008, SEK million.

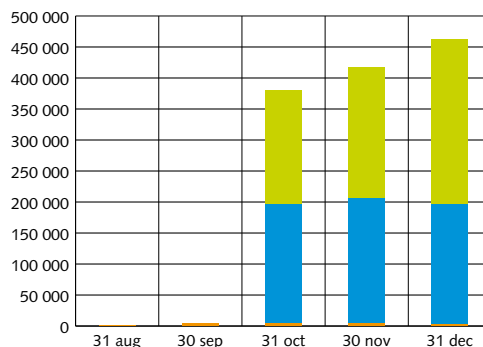
- Liabilities to residents outside Sweden denominated in Swedish kronor
- Fine-tuning operations
- Debt certificates issued
- Liabilities to residents outside Sweden denominated in foreign currency
- Banknotes and coins in circulation
- Shareholders' equity
- Other

### Structural operations

The Riksbank's loans to monetary policy counterparties via auctions in Swedish kronor, with mortgage bonds and corporate certificates as collateral, respectively, are reported on the asset side of the Riksbank's balance sheet as Structural operations (see Diagram 18). Lending was implemented by issuing Riksbank Certificates with a maturity of one week and via fine-tuning operations using deposits from banks, as can be seen on the liability side of the balance sheet in the items Debt certificates issued and Fine-tuning transactions, respectively (see Diagram 19).

DIAGRAM 18  
The Riksbank's lending,  
autumn 2008,  
SEK million.

■ Structural operations  
■ Claims on residents in Sweden denominated in foreign currency  
■ Other

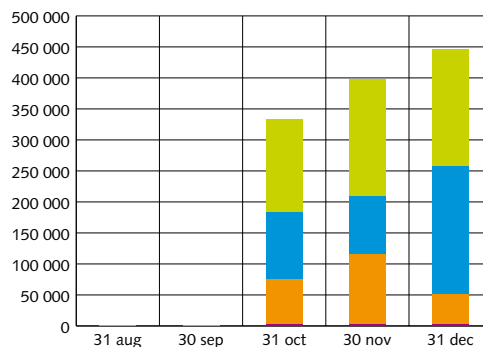


Note. The item Other primarily includes refinancing operations, fine-tuning operations, marginal lending facility and other lending. The item was a total of SEK 1 662 million at the end of December 2008.

Source: The Riksbank.

DIAGRAM 19  
The Riksbank's deposits,  
autumn 2008,  
SEK million.

■ Liabilities to residents outside Sweden denominated in Swedish kronor  
■ Fine-tuning operations  
■ Debt certificates issued  
■ Other



Note. The item Other includes liabilities denominated in Swedish kronor to other residents in Sweden, deposit facility and liabilities denominated in foreign currency to residents in Sweden. The item was a total of SEK 1 998 million at the end of December 2008.

Source: The Riksbank.

The loans denominated in Swedish kronor that the Riksbank provided generated positive net interest. The Riksbank's interest income exceeded financial expense by SEK 769 million (see Table 4).

The loans in us dollars that the Riksbank offered during the autumn to monetary policy counterparties had an impact on the item Claims on residents in Sweden denominated in foreign currency on the asset side of the balance sheet. Equivalent loans in foreign currency are reported on the liability side of the balance sheet as Liabilities to residents outside Sweden denominated in Swedish kronor.

The Riksbank's loan in us dollars resulted in positive net interest equivalent to SEK 70 million.

### Loans to foreign central banks

The lending in euro against collateral in Icelandic kronor and Latvian lats that the Riksbank offered to the central banks of Iceland and Latvia, respectively, is included as part of Balances with banks and security investments on the asset side of the balance sheet. The Riksbank financed the loan in euro by leveraging its existing bond holdings in the currency reserve, which is reported in the item Liabilities to residents outside Sweden denominated in foreign currency on the liability side of the balance sheet.

The loans to the two central banks had a positive impact on the Riksbank's net interest – and to almost as large a degree – with a total amount equivalent to SEK 4 million.

### MONETARY POLICY ASSETS

At 1 January, the monetary policy repo was zero since the liquidity deficit, which had been in the banking system for a long time, had become a surplus. During the autumn the Riksbank needed instead to withdraw liquidity from the monetary policy counterparties. Up until the middle of October, when the repo no longer existed, the return on monetary policy assets was SEK 91 million.

### LOANS ON SPECIAL TERMS AND CONDITIONS

Financing of the loans to Kaupthing Bank Sverige AB and Carnegie Investment Bank are recognised in the balance sheet on the liability side in the

items Debt certificates issued and Fine-tuning operations.

Lending to the two Swedish banks generated a combined net interest of SEK 43 million, with SEK 38 million attributable to the loan to Kaupthing and SEK 5 million to the loan to Carnegie. The loan to Carnegie was repaid on 10 November by the Swedish National Debt Office, which then became the owner of the bank.

#### RETURN ON STRATEGIC MANAGEMENT

The market value of the Riksbank's gold and currency reserve was about SEK 220 billion at year-end.

##### *Currency reserve*

The value of the currency reserve was SEK 187.0 billion at year-end. Total return was SEK 33.0 billion. The krona weakened sharply against most currencies in the reserve, which contributed SEK 15.6 billion to the total return for the currency reserve. Excluding exchange rate effects the return was SEK 17.4 billion, or 10.9 per cent. Due to the accelerating turbulence in the financial markets during the year, the return was better than expected.



In October, the Riksbank began issuing Riksbank certificates that replace the monetary policy repos. The new certificates have a maturity of seven days and should help to facilitate the functioning of the Swedish financial market. The Riksbank certificates are one of the standard instruments for the implementation of monetary policy.

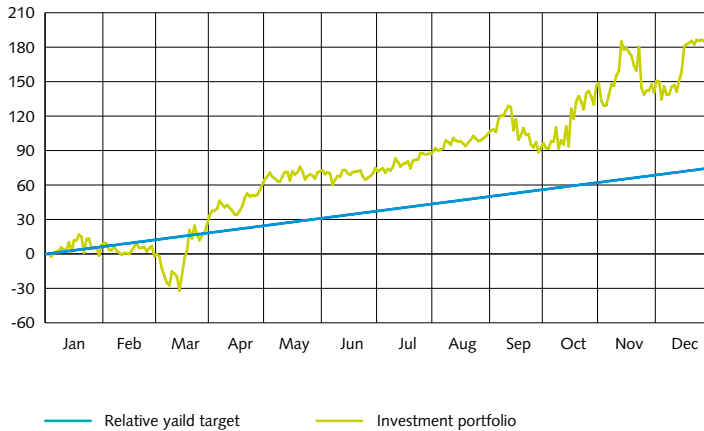
TABLE 5  
Return on the Riksbank's asset management operations 2008

	Market value (SEK million)	Return (SEK million)	Return excl. exchange rate effects (SEK million)	Return excl. exchange rate effects (%)
Currency reserve	187 046	32 981	17 375	10.93
Gold reserve	29 976	6 252	-63	-0.25
Other assets	3 284	106	16	0.78
Total	220 306	39 339	17 328	9.27

Source: The Riksbank.

DIAGRAM 20

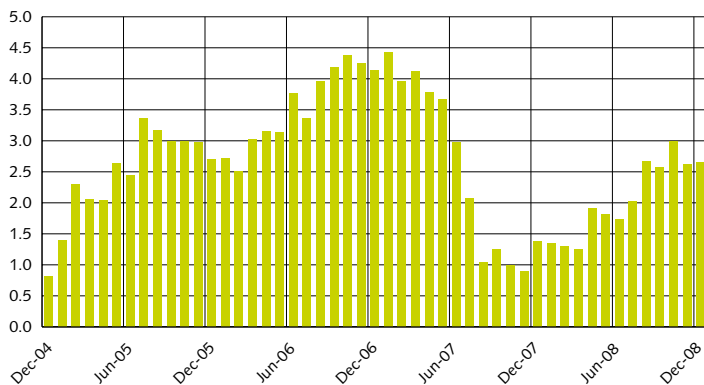
Currency reserve's return over comparative index 2008, SEK million.



Source: The Riksbank.

DIAGRAM 21

Currency reserve's information ratio 2005–2008.



Source: The Riksbank.

*Gold reserve*

During the year the Riksbank sold 11.75 tonnes of gold for a value of SEK 2.2 billion under the terms of the Central Bank Gold Agreement. Despite the sale, the value of the Riksbank's gold reserve increased SEK 4.1 billion to SEK 30.0 billion. The increase is attributable to the positive impact of the price of gold and exchange rate effects.

*Other assets*

On 1 January the total value of the rest of the assets was SEK 3.3 million. At the same time, the return on these assets, excluding exchange rate effects, was SEK 16 million.

**RETURN ON TACTICAL MANAGEMENT****OPERATIONS**

2008 was a turbulent year in the financial markets. As a result of this turbulence, revenues from the Riksbank's lending of securities rose sharply. The return on tactical management operations at year-end was SEK 191.8 million above the comparative index, which is substantially higher than the target of a return of SEK 75 million over the comparative index (see Diagram 20).

The correlation between the return on the Riksbank's portfolio in relation to the Riksbank's comparative index and the spread of these differences (active risk of the portfolio), the so-called information ratio, gradually increased during 2008 (see Diagram 21). The information ratio was above zero every month, which means that it was profitable to deviate from the index.

**RISKS IN ASSET MANAGEMENT**

The turbulence in the financial markets in the autumn had a substantial effect on the Riksbank's risk exposure. The previously relatively stable

risk indicators reached extreme levels due to the extremely volatile fixed income and foreign exchange markets. At the same time market interest rates fell sharply and the Swedish krona weakened substantially against most portfolio currencies in which the Riksbank invests.

The combined effect of the dramatic interest rate and currency fluctuations was a pronounced increase in the market value of the Riksbank's financial assets, resulting in an increase in exposure to issuers (countries) and counterparties. The increased exposure occurred in fixed income assets with relatively high liquidity and low risk. The Riksbank did not suffer from loan losses in its foreign investments.

The increased market value of the Riksbank's financial assets and the higher volatility in the fixed income and foreign exchange markets also caused the variation in the return on the financial assets to increase (see Diagram 14).

Consequently, market risk increased – measured as Value-at-Risk – substantially (see Diagram 22).

The price of gold also varied sharply, which increased the market risk of the gold portfolio.

On average, relative VaR for tactical management was almost SEK 160 million during the year.

Credit risks and operational risks relating to financial asset management increased as a result of the Riksbank's measures to increase liquidity in the Swedish financial market.

At the same time, the operational risks increased due to the increased workload, elevated preparedness and new types of transaction flows.

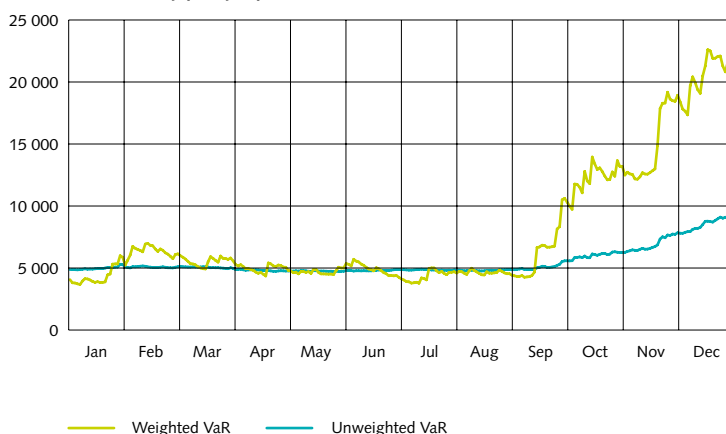
Nevertheless, the Riksbank did not suffer any loan losses that can be attributed to the extraordinary measures during the financial crisis, and did a satisfactory job of handling the increased operational risks.

#### ASSET MANAGEMENT COSTS

In addition to transaction costs charged to the return on assets, the costs for asset management were SEK 88 million during 2008, which corresponds to slightly less than 0.05 per cent of assets managed.

According to McKinsey & Company consultancy firm, the Riksbank's administrative expenses were in line with equivalent costs for 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.

DIAGRAM 22  
Value-at-Risk for gold and currency reserve excluding receivables in SDR and monetary policy repo, SEK million.



Note. The diagram shows two different VaR series. One series (blue) shows unweighted VaR, where historical price movements are assigned the same weight. In the weighted series (green), price movements close in time are assigned a larger weight than movements farther back in time, which means that changes in the financial markets have a faster and clearer impact on VaR calculations.

Source: The Riksbank.

## ■ Statistics

The Riksbank has an agreement with Statistics Sweden (SCB) on the production of financial market statistics and balance of payments statistics. However, the Riksbank is responsible for quality assurance and for development of the contents of the statistics. In 2008 the Riksbank and Statistics Sweden initiated several projects that included reviewing the forms used to report statistics.

In accordance with the Sveriges Riksbank Act, the Riksbank shall make public statistical data concerning foreign exchange and credit conditions on a continual basis. Riksbank is responsible for 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.

Statistics on both the financial market and the balance of payments are produced and published by Statistics Sweden. However, the Riksbank is responsible for the quality, contents and development of the statistics.

The Riksbank produces and publishes statistics concerning interest rates and exchange rates on a daily basis. In addition, the Riksbank collects turnover statistics on a daily basis from primary monetary policy counterparties and counterparties in foreign exchange transactions.

### *Activities in 2008*

The Riksbank's statistical responsibilities include the recurrent procurement of production services and determination of the level of ambition for statistics concerning the balance of payments and the financial market. The Riksbank is also responsible for ensuring that Swedish statistics comply with the international requirements for statistics in these areas and participates in international collaboration on these matters.

In 2008 the Riksbank initiated a project with Statistics Sweden to review most forms used for

reporting of financial market statistics. An overview is necessary mainly because of changes in the regulatory framework for statistics of the European Central Bank (ECB). At the same time the Riksbank and the SCB are exploring whether other changes are needed, such as new national needs or opportunities to improve and simplify the forms. The overview of the forms will be completed in 2009 and the new forms will be introduced in 2010.

Statistics Sweden took over production of the balance of payment statistics in August 2007. In 2008 the Riksbank and Statistics Sweden initiated a project to plan for future changes in international standards for definitions in and presentation of statistics concerning the balance of payments.

### *Follow-up*

The publication of balance of payments and financial market statistics complies with a predetermined schedule. During the year, the statistics were published on more than 30 occasions, all in accordance with the timetable.

As a result of temporary interruptions due to problems associated with deployment of a new computer system in 2007, balance of payment statistics did not cover the complete set of time-series when they were published and therefore international reporting was delayed. These deficiencies were largely remedied, primarily at the end of 2008.

## ■ International cooperation

The global financial crisis in 2008 clearly illustrated the vulnerabilities of the international financial system and the importance of good cooperation between countries, especially in crisis situations. The events also clearly showed how dependent the Swedish economy and the Riksbank are on the international environment. The Riksbank's overarching strategic objective for participation in international cooperation is to contribute to global monetary and financial stability, and to effective regulatory structures. For several years the Riksbank has given priority to strengthening financial crisis management procedures and to promoting balanced financial integration.

Like central banks in other countries, the Riksbank is a partner or member of several international organisations, with tasks related to economic and financial matters. For example, the Riksbank provides for Sweden's capital contribution to the International Monetary Fund (IMF), it is a partner in the Bank for International Settlements (BIS) and it contributes to the financing of the European Central Bank (ECB). The Riksbank also participates in other international organisations involving central banks, including those in the European Union (EU). Such cooperation entails active participation by the Riksbank in the work of these organisations. All in all the Riksbank is represented in about 130 international groups and committees.

The Riksbank also provides expert assistance to establishing central bank operational functions in a few developing countries. This work is financed by the Swedish International Development Cooperation Agency (Sida).

As part of its international cooperation, the Riksbank arranges research conferences from time to time on matters of interest to central banks.

### *Activities in 2008*

At the end of 2007 the Executive Board defined the overarching strategic objective of the Riksbank's international work. First, the Executive Board established the bank's basic principles regarding international policy issues. In line with these principles the Riksbank advocates openness and transparency, solutions that are conform with market economy functions, cost efficiency in international cooperation and equal treatment of countries.

## Profile issues in the Riksbank's international work

### Financial stability

- Strengthen conditions for international crisis management.
- Further develop methods and models to analyse financial stability.
- Promote cross-border financial integration.

### Macroeconomics and monetary stability

- Advocate openness and transparency in monetary policy as regards both communication and decisions.
- Monitor the implementation of the convergence criteria to ensure that this does not raise obstacles to a possible Swedish adoption of the euro in the future.
- Promote efficient resource utilisation in the production of statistics.
- Improve the understanding of factors that affect productivity trends.
- Improve the understanding of how the institutional structure for economic policy decision-making affects macroeconomic trends.

### Other profile areas and profile issues

- Refine ideas about how to better integrate the analysis of monetary policy and that of financial stability.
- Further develop the analysis of how governance and organisational forms affect the result of central banks and international organisations.

Second, the Executive Board identified several profile issues that the Riksbank particularly wants to influence, learn more about or share its knowledge and experience on. The issues to which the bank clearly gave top priority during the year were strengthening international crisis management and promoting balanced cross-border financial integration.

Third, the Executive Board formulated a proposal for objectives for international organisations and how they should perform. The work

with financial issues within the EU and the Nordic-Baltic collaboration in the IMF received special priority during the year.

Moreover, during the year the Riksbank initiated collaboration to provide expert assistance to the central bank in Kenya. The programmes with the central banks in Albania, Uganda and Viet Nam continued, while the programme with Sri Lanka's central bank was dormant during the year.

In September and October the Riksbank held three international research conferences about household indebtedness, forecasting methods and transparency in monetary policy.

### *Follow-up*

As the acute global financial crisis evolved, Riksbank representatives were given important roles as advisers in international cooperation activities, especially in light of the bank's knowledge and experience from the Swedish banking crisis in the early 1990s. The Riksbank reached agreements with the central banks in Iceland and Latvia to swap euro for the national currency and closely monitored the formulation of the IMF programmes for these countries.

According to the assessment of the Executive Board the Riksbank had, in general, a good influence on international cooperation during the year. The long-standing prioritisation of international crisis management and financial integration led to several advances in these fields.

In the EU the finance ministers and central bank governors agreed on a Memorandum of Understanding on cross-border cooperation between authorities concerned during financial crises. The Riksbank had actively participated in negotiations for this agreement in the EU's economic and financial committee (EFC). Another important systemic issue in which the Riksbank was engaged is stronger cooperation between EU regulatory authorities for regular

supervision. The finance ministers and central bank governors agreed that when making decisions, national regulatory authorities shall take account of the consequences for financial stability in other countries. Supervisory authorities shall also organise more well-defined mutual cooperation with respect to those banks that have operations in several countries. Further, a timetable was set for implementation of a uniform reporting by financial institutions for supervisory purposes.

Moreover, the Riksbank worked actively within the EU to harmonise the rules for depositor guarantee schemes. When the financial crisis hit Europe a common minimum level of EUR 50,000 for protection was established in all EU countries, and a decision was taken to implement a harmonised level for EUR 100,000 from 2011.

Sweden holds the presidency of the Nordic-Baltic constituency in the IMF in 2008 and 2009. For the Riksbank, this entails leading, in consultation with the Ministry of Finance, the work to elaborate common positions on issues of importance for the constituency. Sweden particularly safeguards the role of the IMF as an effective and legitimate cooperative body for matters of international financial and monetary stability. Sweden therefore worked to adjust the influence of member states in line with developments in the balance of power in the global economy. In April an agreement was reached with such a focus, concerning an adjustment to the allocation of votes within the IMF.

Sweden also promoted reduction of costs within the IMF to achieve stable financing when income from lending decreases. During the year the IMF reduced the size of its staff by almost 20 per cent, and an agreement in principle was reached for future financing of the IMF.

Moreover, Sweden worked to encourage the IMF to improve integration of its macroeconomic and financial monitoring and improve its country analyses by also focusing on regions where banks have cross-border operations. This focus for the IMF's future received support during the Fund's annual meeting in October.



## ■ Organisation and management

During 2008 the Riksbank continued its work on being among the best with regard to quality and efficiency in comparison with other central banks, and also other public authorities, academic institutions and private companies. A number of minor changes were made in the divisional structure within three departments to better adapt the organisational structure to the needs of the Bank's activities. The Riksbank also began a broad review of the principles and forms for the day-to-day asset management.

The Sveriges Riksbank Act, the Rules of Procedure and the Instructions for the Sveriges Riksbank establish the Riksbank's objective, tasks and organisation. The Riksbank's vision states overall goals and focus for the Bank's activities over the coming ten years in the endeavour to be among the best with regard to quality and efficiency to maintain a high level of confidence.

### THE RIKSBANK'S VISION

The Riksbank's vision involves the organisation, communication, competence and the working climate. It can be summarised to the effect that the Riksbank is to be an organisation prepared for change, that does what it is most suited for and that evaluates its own activities. The Riksbank is to be open and to communicate in a manner that permits a broad group of people outside the Bank to profit from information about the Bank's tasks and results. The Bank is to have professional staff members with both spearhead competence and broad academic knowledge as well as an understanding of the correlations and the overall picture.

According to the vision, the Bank must also have a good working climate that motivates and inspires commitment. The Riksbank is to be a workplace to be proud of, where each employee has and assumes personal responsibility and can clearly see his or her contribution to the Bank's overall objective. It must be possible to combine work and private life in a positive manner.

### MANAGEMENT OF ACTIVITIES

The Riksbank's internal management of activi-

ties is based on a chain of planning with a vision in the long term, strategic goals in the medium term and an annual operational plan linked to the strategic objectives and vision. The strategic goals are the central point of the Riksbank's planning and follow-up work. During 2008 they were divided up into seven activity areas: monetary policy, financial stability, payment system, banknotes and coins, asset management, statistics and bank-wide functions. The bank-wide area was further divided up into six goal areas: communication, personnel, IT, management and governance, administrative support and service and resources. For each goal there are one or more indicators that together provide a picture of how the Riksbank is succeeding in this area. These indicators also function as a basis for discussions on aims and priorities.

The Riksbank is a decentralised organisation where the heads of department are responsible to the Executive Board for the management and control of their own activities, including their efficiency and risk management. The Executive Board has assigned the Internal Audit Department to carry out an independent evaluation of internal management and control, risk management and management processes.

### *Activities in 2008*

During the year the work on attaining the goals in the vision and the strategic plan continued in the form of adapting the organisational structure to the needs of the Bank's activities. A number of minor changes were implemented to ensure efficient decision-making and preparatory pro-

cesses as well as the appropriate internal support and service.

In January, a new division was created within the Financial Stability Department – the Macroprudential Division. The Division's task is to reinforce the Riksbank's operational analysis work by focussing more clearly on the borrower structure and credit risks of the Swedish banks.

In July a function for following up regulations was established in the General Secretariat. This function is to act as a support to the organisation regarding following up regulations and contributing to a clearer structure in the internal regulatory framework. The introduction of this function does not entail any change in the tasks of other support functions.

The Services Division and the Division for Transport and Security Surveillance formed in October a new, joint Division for Service and Surveillance within the Administration Department. This merger is a natural consequence of the earlier changes in the department, which led to both divisions having the same basic tasks and beginning to manage contracts with external service providers.

The IT Department's network and security division was abolished in November. This division's tasks were distributed between the remaining five divisions within the department to better adapt the organisation to new work tasks.



In November, the Riksbank introduced a loan programme with commercial papers as collateral. The aim of this programme is to make it easier for the banks to lend money to large non-financial companies and thus improve the companies' funding.

The Asset Management Department received two new divisions in December – the Back Office division and the RIX division. These divisions were created by dividing up the Business Support and Payment Services Division to refine the responsibility for the work in two comprehensive areas that are operations-critical.

A broad review of the Riksbank's asset management began in the spring. This review focuses on the strategic aims of the asset management, partly on the basis of the proposals by the commission of inquiry into the Riksbank's financial independence and partly in the light of the experiences of central bank asset management in recent years. This includes examining the principles behind the composition of the assets, including the extent of the foreign exchange risk involved. The forms for the day-to-day management of the Riksbank's financial assets will also be reviewed.

### *Follow-up*

During the year the Riksbank worked actively on following up the Bank's vision and strategic plan. The Executive Board received two follow-up reports containing the status of the indicators, the prioritised action plans and the budget.

In total, 64 indicators were used in the business plan for 2008. Most of the indicators that could be assessed showed an approved result during the first part of the year. One example where the Riksbank did not attain its target was the availability of the RIX system. As the result of a serious disruption in May 2008 availability over the year as a whole was slightly below the target level. The year's employee survey furthermore indicated that the Riksbank had not attained the target regarding a balance between work and leisure. In addition, the follow-up of the prioritised action plans for 2008 pointed to many delays in the development work as a result of all the additional work in managing the financial crisis and the difficult monetary policy situation during the year.

The Riksbank also measures how well the Bank has attained its objectives through external surveys. One example of this is the SOM Institute's annual survey of the Swedish general

public's habits and attitudes regarding society, politics and the media. In the 2008 survey 51 per cent responded that they have "very much" or "fairly much" confidence in the Riksbank. The Bank thus holds fourth place among the institutions in Swedish society, after public healthcare, the police and universities/colleges. This is an improvement compared with the previous year when the Riksbank obtained fifth place in that 48 per cent of those responding had "very much" or "fairly much" confidence in the Bank.

Several of the strategic objectives also state that important target groups are to have a high level of confidence in the Riksbank. These include members of the Riksdag, the financial markets and other public authorities. As a result of the target group analysis made in 2007 the Riksbank began work in 2008 with a special focus on certain target groups with the aim of increasing their knowledge of the Riksbank and thereby, in the long term, reinforcing their confidence in the Riksbank. As part of this work the Riksbank has begun a special project to increase the knowledge of the Riksbank's role in society among the members of the Riksdag.

The new divisional structure introduced within four departments was implemented to ensure the organisational structure is better adapted to the needs of the Bank's activities. It therefore follows the organisational changes made in the previous year with the aim of creating better conditions

for attaining the Riksbank's targets on the basis of the efficiency and quality requirements in the vision.

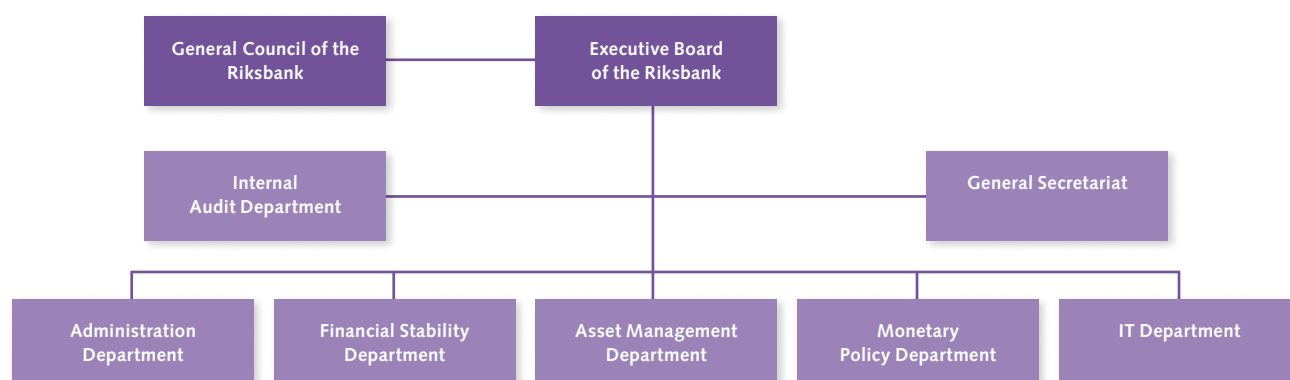
The creation of a new division within the Financial Stability Department laid the foundations for a better understanding of developments in the financial markets. This means that the division contributes to developing a more optimal and efficient analysis process in the policy area. Moreover, the Riksbank's business support and payment services to the banks become more efficient with a new divisional structure in the Asset Management Department. The new divisional structure in the Administration Department and the IT Department at the same time safeguard the conditions for attaining the objectives regarding appropriate internal support and service.

### *The organisation of the Riksbank*

In 2008 the Riksbank was divided into seven departments. Three departments had direct focus on the Bank's main tasks: the Monetary Policy Department, the Financial Stability Department and the Asset Management Department.

A management group consisting of the heads of all departments, with the exception of the Internal Audit Department, has the task of coordinating and following up operations. The head of the General Secretariat is chairman of the management group.

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



**THE DEPARTMENTS OF THE RIKSBANK***The Administration Department*

The Administration Department is responsible for the Riksbank's work on cash management, 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): 83*

*The Financial Stability Department*

The Financial Stability Department is responsible for analysing the stability and efficiency of the financial system. It provides a basis for the decisions made to fulfil the task of promoting a safe and efficient payment system. The department regularly analyses the risks and threats to the stability of the Swedish financial system.

Analysis of the major banks is of particular importance. The department is also responsible for controlling the risks that arise in the Riksbank's financial activities. In addition, the department is responsible for the analysis of stock market and credit markets as well as the market structure.

*Head of Department: Mattias Persson*

*Number of employees (FTEs): 45*

*The Asset Management Department*

The Asset Management Department is responsible for the management of the Riksbank's gold and foreign currency assets. It administers and settles transactions in the management of the Riksbank's gold and foreign currency reserves and regularly evaluates and measures the results and risks in the management of the reserves. In addition, the department is responsible for the RIX payment system for large-value payments between the banks.

*Head of Department: Sophie Degenne*

*Number of employees (FTEs): 34*

*The Monetary Policy Department*

The Monetary Policy Department is responsible for the economic analyses that provide a basis for the decisions made to meet the price stability target. It also implements monetary and foreign exchange policy operations in accordance with the monetary policy decisions. In addition, the department has the main responsibility 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. This department also includes the Riksbank's Research Division.

*Head of Department: Anders Vredin*

*Number of employees (FTEs): 69*

*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.

*Head of Department: Patrick Bailey*

*Number of employees (FTEs): 4*

*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 mainly works with the architecture and infrastructure of the IT system. The department is responsible for the operation, maintenance, purchasing, change and adaptation of applications and systems, as well as for general IT security and the PC environment.

*Head of Department: Hans Ohlson*

*Number of employees (FTEs): 66*

*The General Secretariat*

The General Secretariat is responsible for coordinating daily operations and supporting the Executive Board's management and strategic development of the Bank's activities. The Department also provides secretariat services for the General Council, the Executive Board and the management group. In addition, it coordinates the Riksbank's communication activities and international work and is responsible for legal issues. The Department also includes functions for the following up regulations and for continuity planning.

*Head of Department: Kai Barvell*

*Number of employees (FTEs): 41*

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

## ■ Employees

The Riksbank has continued its focus on leadership in 2008, in the form of regular training activities and by establishing a management policy. The annual employee survey showed that employees feel that the objectives of their work are clear and that there is an open atmosphere at the Bank.

The Riksbank endeavours to be an attractive workplace that makes good use of its employees' motivation, efficiency and job satisfaction. All employees are to experience a sense of participation and understand the importance of their personal contribution to the organisation as a whole.

### **MORE EFFICIENT ORGANISATION**

In autumn 2008 an employee survey was held, which showed that employees feel that the objectives of their work are clear and that there is an open atmosphere at the Bank.

The results in all areas surveyed – work structure, management, organisational climate, personal work situation and ability to act – have improved compared with previous years. The positive results mean that the Riksbank's employee index now amounts to 72 on a scale of up to 100. This improvement can be explained by the active development work carried through by the Riksbank at all levels of the organisation on the basis of the previous year's results.

At the same time, the survey shows that the workload has increased and that employees are experiencing higher stress levels than before. The perceived stress level cannot be entirely explained by the workload arising in connection with the financial crisis. The Riksbank will therefore examine the factors that have led to this development more closely. At the same time, the Riksbank will focus on making its work routines even more efficient. To give employees the tools to manage stressful situations the Riksbank has

intensified the cooperation with an occupational health service company.

### **CONTINUED FOCUS ON MANAGEMENT**

Good management is important for employee's job satisfaction, motivation and work performance. This means that management is a decisive factor in how well an organisation succeeds in carrying out its tasks and achieving its objectives.

The Riksbank has for some years now worked actively and target-oriented to provide managers with the best possible basis for exercising good leadership. All managers have received regular training where the focus has been on communication and practical training. The investment in management has also resulted in the adoption



On 4 December, the Riksbank cut the repo rate by 1.75 percentage points to 2.0 per cent. This is the largest cut in the repo rate since it was introduced as the Riksbank's most important policy rate in 1994.

of a management policy. This policy contains a description of how managers are expected to act with the aim of creating the right conditions for employees to attain operational targets.

Management is one of the areas that has improved most in the 2008 employee survey. The survey shows that 89 per cent of the Riksbank's employees have confidence in their line manager. Employees' confidence in the Governor of the Riksbank and the Executive Board remains high.

#### **HEALTHIER EMPLOYEES**

Absence due to sickness among the Riksbank's employees was 2.4 per cent in 2008, which is a reduction of 1.8 percentage points compared with 2007.

The Riksbank has as its aim to supply active and versatile preventive health care activities that will inspire employees to have a healthy way of life and achieve and maintain good health. Employees are offered the possibility to take part in various forms of physical fitness activities with trained instructors, and to attend lectures on nutrition and health. During the year the Bank has also offered programmes for weight loss and giving up smoking.

## ■ Governance

### The Executive Board of the Riksbank

The Riksbank is led by an Executive Board consisting of 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. The various heads of department report to Mr Ingves, who is also responsible for presenting proposals regarding appointments to the posts approved by the Executive Board. He is a member of the ECB's General Council and a member of the Board of the Bank for International Settlements (BIS). He is also Sweden's Governor in the International Monetary Fund. Mr Ingves holds a PhD in economics and before taking up the post of Governor of the Riksbank he headed the Department for Monetary and Financial Systems at the IMF. Prior to this he had 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.

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

Svante Öberg was appointed First Deputy Governor of the Riksbank on 2 February 2009. He represents the Riksbank in the EU's Economic and Financial Committee and in the ECB's International Relations Committee. Mr Öberg is an economist and prior to taking up his post as Deputy Governor of the Riksbank he was the Director General of Statistics Sweden. Before this he had been Director General of the National Institute of Economic Research, State Secretary at the Ministry of Finance and an adviser at the IMF.

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

Lars Nyberg is Deputy Governor of the Riksbank. He 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 ESCB's Banking Supervision Committee. Mr Nyberg represents the Riksbank in the field of financial stability. He is an associate professor in economics and has previously been Deputy CEO at Svenska Handelsbanken and Föreningssparbanken and CEO of Länsförsäkringsbolagens förening.

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

Lars E.O. Svensson is Deputy Governor of the Riksbank. He represents the Riksbank in the OECD's Working Party Three. Mr Svensson is a professor at Princeton University (on leave of absence). Prior to this he was a 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 Deputy Governor of the Riksbank. 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 mortgage institution SBAB. Prior to this she had long experience as an economist at the National Institute of Economic Research and at Sweden Post's economic secretariat.



Stefan Ingves



Svante Öberg



Lars Nyberg



Lars E O Svensson



Barbro Wickman-Parak

Member whose term of office came to an end at the turn of the year 2008/2009:

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

Irma Rosenberg was First Deputy Governor of the Riksbank. Ms Rosenberg represented the Riksbank in the fields of monetary policy and exchange rate policy. She was the Governor's alternate in the ECB General Council and participated in the BIS Governors' meetings and board meetings together with the Governor of the Riksbank. She holds a PhD in economics and has worked as chief economist at the mortgage institution SBAB and at Sweden Post and Postgirot Bank. Prior to this, Ms Rosenberg was head of research and head of forecasting at the National Institute of Economic Research. Ms Rosenberg's term of office ended at the turn of the year 2008/2009.

#### **THE EXECUTIVE BOARD'S TASKS**

In December 2007, the Executive Board adopted changes in the Instructions for the Sveriges Riksbank regarding the governance of the Riksbank. These changes, which came into force on 1 January 2008, underlined the Executive Board's joint responsibility for the strategic management of the Riksbank. At the same time,

the Executive Board – as the highest decision-making body – delegated clearer responsibilities to the Governor to lead and follow-up the administration and management of the Riksbank.

The role of the Executive Board as a strategic decision-maker was underlined by a clearer focus on central decisions regarding monetary and exchange rate policy and on important issues relating to financial stability and the Riksbank's asset management. The Executive Board also makes the overall decisions regarding the Riksbank's activities such as decisions on the Riksbank's strategic objectives, its operational plan and budget and how these are followed up. At the same time, the Governor has a clear assignment to lead the day-to-day operations of the Riksbank, as well as a responsibility to follow-up whether the activities carried out are in line with the adopted plans and the budget.

Under the new Instructions for the Sveriges Riksbank, the previous system in which Executive Board members were assigned special responsibility for specific issues was phased out. Instead, it is the relevant heads of department that prepare and submit proposals or background material to the Executive Board on matters that are to be decided by the Board. The Executive Board has, in accordance with the new Instructions, assigned two Deputy Governors to represent the Riks-



bank in Sweden and internationally within various fields or with regard to specific issues.

The Executive Board makes decisions jointly 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 vote or to make proposals. Under the Sveriges Riksbank Act, the Riksbank is required to inform the Government prior to all important monetary policy decisions.

### *The Executive Board in 2008*

The work of the Executive Board in the autumn of 2008 was strongly marked by the prevailing financial turmoil. For instance, the Board held several extra meetings at which it addressed issues relating to developments on the financial markets. The Board held a total of 38 meetings during the year, seven of which were monetary policy meetings. The members of the Executive Board made 150 speeches, 33 of which were published. These speeches dealt with subjects such as current monetary policy and economic situation, financial stability and financial crisis.

Twice a year, The Executive Board presents a written report on monetary policy to the parliamentary Committee on Finance. The most recent Monetary Policy Report at the time acts as this report and is complemented by a public hearing with the Governor at the Committee on Finance. During the year, the Governor attended the Committee on Finance on two occasions for such hearings. Several Executive Board members also attended closed meetings of the Committee on Finance to speak about the financial crisis and international issues.

#### **EXTERNAL ASSIGNMENTS OF THE EXECUTIVE BOARD MEMBERS**

If a member of the Executive Board wishes to have employment or an assignment in addition to their employment at the Riksbank, this must be approved by the General Council. The following is a list of the external assignments of the members of the Executive Board at year-end 2008. These have been approved by the General Council and are reviewed every second year.

#### *Stefan Ingves*

- Member of the Board 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 Europæa
- 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 of the Riksbank

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

The members of the General Council since 17 October 2006 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 deputies are Anne-Katrine Dunker, Carin Lundberg, Stephan Tolstoy, Fredrik Olovsson, Lena Sommestad, Håkan Larsson and Tommy Waidelich. In 2008, the deputies Catharina Elmsäter-Svärd, Barbro Holmberg, Per Landgren and Johan Pehrson were succeeded by Ulla Löfgren, Pär Nuder, Ulf Perbo and Carl B Hamilton.

### THE GENERAL COUNCIL'S TASKS

The General Council appoints the members of the Executive Board and determines their salaries and other terms of employment. Since 1 July 2008, the members of the Executive Board are appointed for a period of five or six years. The General Council also adopts the Riksbank's Rules of Procedure and decides on the design of banknotes and coins.

One of the General Council's tasks is to regularly monitor the Riksbank's activities and how the Executive Board conducts its business. One way for the General Council to perform its supervisory role is for the Chairman and Vice Chairman to exercise their right to attend and speak at the Executive Board meetings, although they are not allowed to submit proposals or to vote. The General Council has an Audit Unit that, among other things, examines how members of the Executive Board perform their duties and also examines the Riksbank's closing procedures with regard to the calculation of the Riksbank's profits. The Audit Unit's work is carried out by an external chartered accountant.

The General Council may present opinions within its field of competence on issues officially referred to the Riksbank for consideration. In consultation with the Executive Board, the General Council may present proposals to the Riksdag and the Government regarding statutory amendments or other measures in its sphere of responsibility. The General Council also submits proposals to the Riksdag and the Swedish National Audit Office regarding the allocation of the Riksbank's profits.

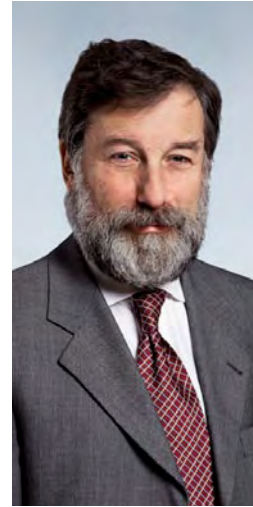
#### *The General Council in 2008*

The General Council held 11 meetings in 2008. The General Council was also invited to extra information meetings as a result of the financial turmoil and to breakfast meetings at which information was presented following the monetary policy decisions of the Executive Board. In addition, the Council was invited to information meetings together with a number of the parliamentary committees.

During the year, the question of the General Council's supervisory function was discussed in



Johan Gernandt



Leif Pagrotsky

terms of how this function should be formulated and how it should be further developed. The supervisory function has not been described in detail in the preamble to the legislation or by the Riksdag. The General Council has therefore itself attempted to regulate the scope of its activities. When the General Council submits its proposal for the allocation of the Riksbank's profits in its report to the Riksdag each year, it also reports on its supervisory activities.

Part of the supervisory function of the General Council is performed by the Audit Unit. During the year, the Audit Unit worked in accordance with the audit plan for 2008 and examined the way in which the members of the Executive Board discharged their duties, a set of interim accounts with regard to principles, reporting and follow-up and the Riksbank's proposal for the allocation of its profits. The Audit Unit also examined a new approval procedure and travel costs for research purposes, and started a register analysis of transactions in securities. These examinations did not give rise to any critical remarks. The General Council was also informed about the Swedish National Audit Office's examination of the Riksbank's activities.

In early 2008, the General Council and the Executive Board submitted joint comments to the Ministry of Finance concerning the Riksbank's financial independence in response to a Government inquiry on the Riksbank's capital structure and profit allocation. In addition, the



Sinikka Bohlin



Peter Egardt



Susanne Eberstein



Bo Bernhardsson

General Council was informed about the Riksbank's internal study of the Riksbank's asset management. In consultation with the Executive Board, the General Council decided to submit a report to the Riksdag with a request that the Riksdag should consent to a further extension of Sweden's participation in the IMF's New Arrangements to Borrow scheme (NAB). The General Council also decided in consultation with the Executive Board to submit a report to the Riksdag with a request to consent to the Riksbank's participation in the IMF's solution for the funding of Liberia's debt to the IMF. Moreover, the General Council decided, again in consultation with the Executive Board, to submit a report to the Government to request an exemption from the provisions of the Public Procurement Act for procurements in the period 2009–2011 and to submit a report to the Riksdag to propose legislation on the withdrawal of the 50-öre coin as legal tender.

Four members of the General Council are members of a commemorative coins group, a drafting committee set up by the Riksbank. This group also includes 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. The task of this group is to draft design proposals for the issue of commemorative coins. In March, the General Council decided to extend this task to also co-

ver the design of circulation coins and banknotes and to change the name of the group to the Drafting Committee for the Design of Banknotes and Coins. The General Council also decided during the year on the design of a special one krona coin to be issued in 2009 to commemorate the 200th anniversary of the peace treaty of 1809 under which Finland was separated from Sweden. Furthermore, the Executive Board informed the general Council of the ongoing review of the Swedish banknote and coin series. The Drafting Committee for the Design of Banknotes and Coins discussed these issues in detail.

In October, the General Council decided to propose to the parliamentary nominating committee the appointment of Sarah McPhee as a new member of the board of Stiftelsen Riksbankens Jubileumsfond.

The Chairman and Vice Chairman of the General Council followed the work of the Executive Board during the year, for example by attending the meetings of the Executive Board. The members of the Executive Board usually participated in the meetings of the General Council. The General Council also received regular reports on activities from the Executive Board. The Executive Board reported, for example, on current monetary policy and on the efforts to oversee the stability of the financial system. The General Council was also regularly informed about the situation on the financial markets and about the measures taken by the



Elizabeth Nyström



Anders Flanking



Karin Pilsäter



Kjell Nordström



Ebba Lindsö

Riksbank in connection with the financial crisis. The General Council has also received information on the budget, the operational plan, the development of risks and results in asset management and the outcome of the Riksbank's activities in general as well as the activities of the internal audit.

The General Council was informed of the Executive Board's responses to items submitted in the course of the consultation and referral procedure during the year. The Executive Board also informed the General Council about important international meetings with, for example, the International Monetary Fund and the informal ECOFIN Council.

During the year, the Executive Board presented information on the work to set up a function for following up regulations at the Riksbank and on the work to develop and improve the Riksbank's internal regulations. The General Council also received information about the work to introduce a new payment system, FRIX, in Sweden.

During the year, the General Council dealt with issues relating to the employment conditions, personnel loans and external assignments of the members of the Executive Board. The question of the General Council's supervisory function was also discussed.

During the General Council's regular follow-up of the work of the Executive Board members, no information has come to light that has given the General Council cause to criticise the way the members exercise 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 5 November 2008 (Ref. no: 2008-786-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). According to chapter 10, section 3, of the Sveriges Riksbank Act, the Riksbank must apply the accounting guidelines of the European Central Bank System.

### CHANGES IN ACCOUNTING PRINCIPLES

On 5 November 2008 the Executive Board amended the Rules for Bookkeeping and Annual Accounts at Sveriges Riksbank, to go into force on 31 December 2008. According to the amendment, the adjustment in value of the IMF's holdings of Swedish kronor is deducted from foreign exchange revaluations that are attributable to the Riksbank's quota in the IMF instead of being directly recognised as realised gains and losses.

#### *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.

Property, plant and equipment and intangible assets are recorded at cost of acquisition and 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 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.

The spot legs of FX swaps are booked on the settlement date at the exchange rate on the trade date (spot). The forward legs of FX swaps are booked the same way as foreign exchange forwards, at a value 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. Unlike foreign exchange forwards, no net foreign exchange gains/losses arise in accounting of FX swaps.

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 recognised 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	31.12.2008	31.12.2007
Gold	1	29 976	25 827
Claims on residents outside Sweden denominated in foreign currency			
Receivables from the IMF	2	6 261	4 614
Balances with banks and security investments	3	194 187	167 942
		<b>200 448</b>	172 556
Claims on residents in Sweden denominated in foreign currency	4	196 124	–
Lending to monetary policy counterparties denominated in Swedish kronor			
Main refinancing operations	5	–	7 199
Fine-tuning operations	6	–	1 787
Structural operations	7	264 800	–
Marginal lending facility	8	0	143
Other lending	9	1 662	–
		<b>266 462</b>	9 129
Other assets			
Tangible and intangible fixed assets	10	421	452
Financial assets	11	524	524
Derivative instruments	12	8	497
Prepaid expense and accrued income	13	5 931	2 612
Other assets	14	317	329
		<b>7 201</b>	4 414
<b>Total assets</b>		<b>700 211</b>	211 926



LIABILITIES AND CAPITAL	NOTE	31.12.2008	31.12.2007
<b>Banknotes and coins in circulation</b>			
Banknotes	15	106 266	108 517
Coins	16	6 007	5 807
		<b>112 273</b>	<b>114 324</b>
<b>Liabilities to monetary policy counterparties in Swedish kronor</b>			
Deposit facility	17	32	143
Fine-tuning operations	18	206 664	–
		<b>206 696</b>	<b>143</b>
<b>Debt certificates issued</b>			
	19	48 946	–
<b>Liabilities to residents in Sweden denominated in Swedish kronor</b>			
	20	104	–
<b>Liabilities to residents outside Sweden denominated in Swedish kronor</b>			
	21	189 248	82
<b>Liabilities to residents in Sweden denominated in foreign currency</b>			
	22	1 862	–
<b>Liabilities to residents outside Sweden denominated in foreign currency</b>			
	23	8 688	12 047
Counterpart of Special Drawing Rights allocated by IMF	24	2 979	2 517
<b>Other liabilities</b>			
Derivative instruments	25	9 254	17
Accrued expenses and prepaid income	26	697	114
Other liabilities	27	47	53
		<b>9 998</b>	<b>184</b>
Provisions	28	264	206
Revaluation accounts	29	49 228	20 081
<b>Equity capital</b>			
Capital	30	1 000	1 000
Reserves	31	57 742	57 742
		<b>58 742</b>	<b>58 247</b>
Årets resultat		11 183	4 095
<b>Total liabilities and equity</b>		<b>700 211</b>	<b>211 926</b>

Memorandum items, see note 44.

## ■ Profit and Loss Account SEK MILLION

	NOTE	2008	2007
Interest income	32	10 610	7 566
Interest expense	33	-2 600	-1 089
Net result of financial transactions	34	3 051	-1 722
Fee and commission income	35	43	43
Fee and commission expenses	36	-8	-10
Income from equity	37	45	131
Other income	38	824	33
<b>Total net income</b>		<b>11 965</b>	<b>4 952</b>
Staff costs	39	-337	-329
Administration expenses	40	-264	-237
Depreciation of tangible and intangible fixed assets	41	-68	-76
Banknote and coin expenses	42	-113	-154
Other expenses	43	-	-61
<b>Total expenses</b>		<b>-782</b>	<b>-857</b>
<b>Result for the year</b>		<b>11 183</b>	<b>4 095</b>

## ■ Statement of cash flows

SEK MILLION

OPERATING ACTIVITIES	31.12.2008	31.12.2007
Cash flow from operating activities		
Interest received	8 873	7 846
Interest paid	-2 599	-1 089
Net received from financial transactions	4 271	1 092
Fees and commissions received	43	43
Fees and commissions paid	-8	-10
Other Income	11	33
Administration expenses paid	-663	-733
	9 928	7 182
Cash flow from operating activities, assets		
Gold	1 102	912
Receivables from the IMF	-1 078	31
Security investments	-6 468	-7 471
Claims on residents in Sweden denominated in foreign currency	-189 193	-
Structural operations	-264 800	-
Other assets	-1 653	-15
	-462 090	-6 543
Cash flow from operating activities, liabilities		
Banknotes and coins in circulation	-1 238	1 944
Liabilities to monetary policy counterparties in Swedish kronor	206 553	22
Debt certificates issued	48 946	-
Liabilities to residents outside Sweden denominated in Swedish kronor	189 166	16
Liabilities to residents outside Sweden denominated in foreign currency	-4 610	-1 292
Other liabilities	1 367	1 057
	440 184	1 747
Cash flow from current operating activities	-11 978	2 386

	31.12.2008	31.12.2007
<b>INVESTING ACTIVITIES</b>		
Acquisitions and disposals of tangible and intangible fixed assets	-37	-45
Acquisitions and disposals of financial assets	–	9
Dividends received	45	67
Cash flow from investing activities	8	31
<b>FINANCING ACTIVITIES</b>		
Transfer to the Treasury	-3 600	-4 400
Cash flow from financing activities	-3 600	-4 400
Cash flow for the year	-15 570	-1 983
Cash and cash equivalents at beginning of period	27 235	29 420
Cash flow from current operating activities	-11 978	2 386
Cash flow from investing activities	8	31
Cash flow from financing activities	-3 600	-4 400
Exchange rate difference on cash and cash equivalents	734	-202
Cash and cash equivalents at end of period	12 399	27 235
<b>SPECIFICATION OF CASH AND CASH EQUIVALENTS</b>		
Balances with banks denominated in foreign currency, See note 3	12 399	18 106
Main refinancing transactions	–	7 199
Fine-tuning operations	–	1 787
Marginal lending facility	–	143
Total cash and cash equivalents	12 399	27 235

The cash flow statement shows receipts and disbursements during the period, as well as cash and cash equivalents at the beginning and end of the period. The cash flow statement is divided into payments from operating activities, investing activities and financing activities.

#### *Operating activities*

Cash flows attributable to operating activities originate from the Riksbank's main operation. Cash flow from operating activities is based on operating profit. Adjustments are made for items that do not affect cash flow or do not belong to operating activities. In addition, cash flow includes changes that affect cash flow from such balance sheet items as are included in operating activities.

#### *Investing activities*

Investing activities consist of the purchase and sale of tangible and intangible fixed assets, as well as those shares and other equity that are reported under financial assets. Dividends received from holdings of shares and other equity are also included.

#### *Financing activities*

Financing activities consists of changes in equity that usually occur through dividends, also known as transfer to the Treasury.

## Notes

SEK MILLION. FIGURES IN PARENTHESES REFER TO 2007.

### Note 1 Gold

	31.12.2008	31.12.2007
Quantity		
Troy ounces (million)	4.4049	4.7827
Price		
US dollar/ounce	867.4480	834.8000
SEK/US dollar	7.8449	6.4688
Book value	29 976	25 827

As of 31 December 2008 the Riksbank holds 4.4 million ounces (troy/oz) of gold, which is equivalent to 137.1 tonnes. In 2008 the Riksbank sold 0.4 million ounces of gold, which is equivalent to 11.7 tonnes.

### Note 2 Receivables from the IMF

	31.12.2008	31.12.2007
Special drawing rights	2 401	2 621
Reserve position in the IMF		
Capital contribution (quota)	28 946	24 460
IMF krona account	-25 311	-22 657
Other receivables	225	190
Total	6 261	4 614

The Riksbank holds Special Drawing Rights (SDR) of 199 million (257). An amount corresponding to the SDRs originally allocated by the IMF is reported as a liability. See note 24.

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 28 946 million, SDR 2 395.5 million, and the IMF's account for Swedish kronor of SEK -25 311 million.

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

At the end of 2008 the Riksbank also has a receivable from the IMF for SDR 16.3 million for funds that the IMF may use for interest and loan losses due to delays. The IMF has made deduction from interest payments on the Riksbank's reserve position in the IMF to transfer the funds. The Riksbank has booked these deductions in the profit and loss account. Consequently they are not included as receivables from the IMF on the Riksbank's balance sheet. In January 2009, the Riksbank, in accordance with a proposal from the IMF and after receiving permission from the Riksdag, notified the IMF that it may use SDR 5.1 million of these funds to finance cancellation of Liberia's debt to the IMF.

### Note 3 Balances with banks and security investments

	31.12.2008	31.12.2007
Balances with banks	12 399	18 106
Security investments	181 788	149 836
Total	194 187	167 942

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, Australian dollars, Canadian dollars, Latvian lats, Icelandic kroner, Norwegian kroner and Japanese yen. The distribution is shown in the following table:

	31.12.2008	31.12.2007
Euro	95 518	76 967
US dollars	56 270	60 324
UK pounds	17 683	15 089
Australian dollars	10 834	7 736
Canadian dollars	9 018	7 825
Latvian lats	2 865	-
Icelandic kroner	1 997	-
Norwegian kroner	2	1
Japanese yen	0	-
Total	194 187	167 942

Balances with banks and security investments by maturity.

Maturity	Balances with banks	Security investments
Up to one month	12 399	-
Over 1 month, up to 3 months	-	-
Over 3 months, up to 1 year	-	5 147
Over 1 year, up to 5 years	-	129 129
Over 5 years	-	47 512
Total	12 399	181 788

As part of its management of the foreign currency reserve, the Riksbank participates in automated securities lending programmes with two custody banks, where these banks act on behalf of the Riksbank to lend the Riksbank's securities in exchange for other securities. The value of securities on loan at 31 December 2008 amounted to SEK 34 835 million.

### Note 4 Claims on residents in Sweden denominated in foreign currency

The Riksbank's lending denominated in foreign currency to monetary policy counterparties is reported here.

**Note 5 Main refinancing operations**

The Riksbank's regular monetary policy repo operations are reported under this heading. This lending is made at the Riksbank's most important key policy rate (repo rate), usually with a maturity of one week.

**Note 6 Fine-tuning operations**

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

**Note 7 Structural operations**

This item is used to report the Riksbank's lending to monetary policy counterparties denominated in Swedish kronor and usually with a longer maturity than main refinancing and fine-tuning operations. The purpose of this lending is to satisfy the longer-term financing needs of the financial industry and to affect the Riksbank's structural position in relation to the financial sector. These operations are not intended to send monetary policy signals.

**Note 8 Marginal lending facility**

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

**Note 9 Other lending**

The Riksbank's liquidity assistance to Kaupthing Bank Sverige AB is reported here.

**Note 10 Tangible and intangible fixed assets**

	31.12.2008	31.12.2007
<b>Land and buildings</b>		
Acquisition value, 1 January	337	338
Acquisitions during the year	–	–
Divestments during the year	–	-1
Acquisition value, 31 December	337	337
Acc. depreciation, 1 January	-125	-116
The year's depreciation	-9	-9
Divestments during the year	–	0
Acc. depreciation, 31 December	-134	-125
Book value	203	212
<b>Machinery and equipment</b>		
Acquisition value, 1 January	567	638
Acquisitions during the year	37	46
Divestments during the year	-6	-117
Acquisition value, 31 December	598	567
Acc. depreciation, 1 January	-327	-377
The year's depreciation	-59	-67
Divestments during the year	6	117

Acc. depreciation, 31 December	-380	-327
Book value	218	240
<b>Total</b>	<b>421</b>	<b>452</b>
<b>Tax assessment value</b>		
Buildings	–	–
Land	–	–

The item Land and buildings includes one property, the head office in Stockholm.

Acquisitions in 2008 include development of a new central payment system for SEK 22 million (15), two new banknote sorting machines for SEK 2 million (–) and computer equipment for SEK 3 million (9).

The item book value machinery and equipment includes application systems for SEK 124 million (125).

**Note 11 Financial assets**

	31.12.2008	31.12.2007
<b>Shares and participations</b>		
<b>BIS</b>		
17 244 shares at a par value of 5 000 SDR, 25 % of which are paid up	441	441
<b>European Central Bank</b>		
7 % of 2.3313 % of total capital subscriptions, EUR 9 400 866.26	82	82
<b>SWIFT</b>		
35 (45) shares at a par value of EUR 125	1	1
<b>Total</b>	<b>524</b>	<b>594</b>

At 1 January 2009 the Riksbank adjusted its percentage share of the European Central Bank to 2.2582 per cent and the paid-up subscription amount by EUR 294 772.58. This adjustment was made because the allocation key changed for all EU countries.

**Note 12 Derivative instruments**

	31.12.2008	31.12.2007
FX swaps, positive value	–	514
FX swaps, negative value	–	-25
Currency forward contracts, positive value	8	8
<b>Total</b>	<b>8</b>	<b>497</b>

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 44, are shown below:

	31.12.2008	31.12.2007
FX swaps, positive value	–	13 136
FX swaps, negative value	–	2 333
Currency forward contracts, positive value	706	113
<b>Total</b>	<b>706</b>	<b>15 582</b>

**Note 13 Prepaid expense and accrued income**

This item is used to report prepaid expenses and accrued income, of which SEK 2 501 million kronor (2 375) is for accrued bond interest and SEK 2 301 million (–) is for accrued financial income for lending through structural operations.

**Note 14 Other assets**

	31.12.2008	31.12.2007
Staff loans	283	272
Accounts receivable	6	8
Claim Crane & Co. Inc.	20	27
Transfer payment Tumba Kulturfastigheter AB	–	3
VAT recoverable	6	12
Balances with banks	2	7
Other	0	0
<b>Total</b>	<b>317</b>	<b>329</b>

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 3 million in 2011. In 2008 the Riksbank received a partial payment of USD 1 million.

**Note 15 Banknotes**

Value of banknotes in circulation by denomination:

	31.12.2008	31.12.2007
1 000 kronor	34 302	38 648
500 kronor	58 021	54 976
100 kronor	9 999	10 036
50 kronor	1 257	1 219
20 kronor	1 735	1 713
Commemorative banknotes	2	2
Invalid banknotes after 2005	950	1 030
Invalid banknotes after 1998	–	893
<b>Total</b>	<b>106 266</b>	<b>108 517</b>

The item invalid banknotes includes banknotes that are no longer legal tender. However, the Riksbank may redeem these banknotes if extenuating circumstances are present. At 31 December 2008, SEK 813 million was charged against other income for those banknotes that are no longer legal tender after 1998 and the remaining SEK 74 million was transferred as a provision for the remaining banknotes expected to be redeemed.

**Note 16 Coins**

Coins in circulation by denomination:

	31.12.2008	31.12.2007
10 kronor	2 518	2 436
5 kronor	1 303	1 258
2 kronor	8	8
1 kronor	1 330	1 278
50 öre	188	171
Commemorative coins	660	656
<b>Total</b>	<b>6 007</b>	<b>5 807</b>

**Note 17 Deposit facility**

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

**Note 18 Fine-tuning operations**

This item is used to report deposits for the purpose of fine tuning liquidity in the financial system. These deposits usually take place overnight.

**Note 19 Debt certificates issued**

This item is used to report the Riksbank's issuance of debt certificates aimed at absorbing liquidity from the financial system. This deposit is made at the Riksbank's most important key policy rate (repo rate), usually with a maturity of one week.

**Note 20 Liabilities to residents in Sweden denominated in Swedish kronor**

This item is used to report accounts denominated in Swedish kronor which the Riksbank holds on behalf of Kaupthing Bank Sverige AB.

**Note 21 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. At the end of 2008 the balance with the US Federal Reserve, amounted to SEK 189 193 million (–), which can be explained by the fact that the account was used for payment of million USD 25 000 under the swap agreement with the Federal Reserve.

**Note 22 Liabilities to residents in Sweden denominated in foreign currency**

The amount owed to Kaupthing hf for collateral of EUR 170 million received for the Riksbank's loan to Kaupthing Bank Sverige AB is reported here. Collateral was received in the form of a deposit into an account that the Riksbank has with another central bank.

**Note 23 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:

	31.12.2008	31.12.2007
Euro	7 297	195
US dollars	–	11 852
UK pounds	168	–
Canadian dollars	–	–
Australian dollars	1 223	–
<b>Total</b>	<b>8 688</b>	<b>12 047</b>

**Note 24 Counterpart of Special Drawing Rights allocated by 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 199 million (257), and is reported under the item receivables from IMF. See note 2.

**Note 25 Derivative instruments**

	31.12.2008	31.12.2007
FX swaps, positive value	-571	-
FX swaps, negative value	9 825	-
Gold options, negative value	-	4
Gold options, positive value	-	0
Interest rate swaps, negative value	-	13
Total	9 254	17

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 44, are shown below:

	31.12.2008	31.12.2007
FX swaps, positive value	49 308	-
FX swaps, negative value	174 958	-
Gold options, negative value	-	54
Gold options, positive value	-	54
Interest rate swaps, negative value	-	2 682
Total	224 266	2 790

**Note 26 Accrued expenses and prepaid income**

This item is used to show accrued expenses and prepaid income, including SEK 568 million (0) for accrued currency swap rates.

**Note 27 Other liabilities**

	31.12.2008	31.12.2007
Accounts payable – trade	25	35
Other	22	18
Total	47	53

**Note 28 Provisions**

	31.12.2008	31.12.2007
Pension liability	134	140
Invalid banknotes	74	-
Lease Malmö office	51	54
Job Security Foundation	5	5
Maintenance National Property Board	-	7
Total	264	206

The pension liability has been calculated by the National Government Employee Pensions Board (SPV), SEK 124

million (129) relates to PA91 pensioners with a date of retirement prior to 2003, and SEK 10 million (11) 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 2008, 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.

The item provisions also includes SEK 74 million for evaluated future costs of banknotes that ceased to be legal tender after 1998 but that the Riksbank still may redeem. In addition, provisions include SEK 51 million for estimated future lease costs for the office in Malmö that was wound up in 2006. Furthermore, SEK 5 million (5) is included for skills enhancement and competence exchange which was set aside in accordance with the agreement with the Job Security Foundation. In 2008 the Riksbank settled its undertaking to reimburse the National Property Board for neglected maintenance of buildings that Tumba Kulturfastigheter donated in 2002.

**Note 29 Revaluation accounts**

	31.12.2008	31.12.2007
Price effect	11 220	2 426
Exchange rate effect	20 888	5 799
Gold value effect	17 120	11 856
Total	49 228	20 081

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:

	31.12.2008	31.12.2007
Euro	14 473	3 283
US dollars	5 028	0
UK pounds	-	0
Australian dollars	221	412
Canadian dollars	703	871
Special drawing rights	106	-
Norwegian kroner	357	1 233
Total	20 888	5 799

**Note 30 Capital**

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



**Note 31 Reserves**

	31.12.2008	31.12.2007
Reserve fund	500	500
Contingency fund	34 078	34 609
Balancing account	23 164	22 138
<b>Total</b>	<b>57 742</b>	<b>57 247</b>

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 2008, a transfer was made from the items write-up of the gold holding and fixed assets to allocation of net revenue at SEK 804 million and SEK 3 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:

	31.12.2008	31.12.2007
Allocation of net revenue:		
Exchange rate effect	7 450	8 982
Gold value effect	4 712	4 155
Other profit allocation	12 197	10 946
Write-up of assets:		
Gold reserve	9 376	10 180
Noncurrent assets	108	111
BIS shares	235	235
<b>Total</b>	<b>34 078</b>	<b>34 609</b>

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

	Capital	Reserves	Result for the year
Balance, 31 December 2007	1 000	57 247	4 095
Transfer to the Treasury			-3 600
Transfer to/from:			
Balancing account		1 026	-1 026
Contingency fund		-531	531
Result for the year			11 183
Rounding off			
Balance, 31 December 2008	1 000	57 742	11 183

**Note 32 Interest income**

	2008	2007
From foreign assets:		
Security investments	6 406	6 063
Balances with banks	1 567	1 174
Receivables from the IMF	83	145
Other	97	57
<b>Total</b>	<b>8 153</b>	<b>7 439</b>
From domestic assets:		
Main refinancing operations	90	114
Structural operations	2 301	-
Other	66	13
<b>Total</b>	<b>2 457</b>	<b>127</b>
<b>Total</b>	<b>10 610</b>	<b>7 566</b>

The item Security investments primarily includes bond interest.

**Note 33 Interest expense**

	2008	2007
From foreign liabilities:		
Deposit repos	-542	-794
Special drawing rights	-66	-102
Other	-324	-137
<b>Total</b>	<b>-932</b>	<b>-1 033</b>
From domestic liabilities:		
Fine-tuning operations	-1 015	-4
Debt certificates issued	-522	-
Cash deposits	-119	-50
Other	-12	-2
<b>Total</b>	<b>-1 668</b>	<b>-56</b>
<b>Total</b>	<b>-2 600</b>	<b>-1 089</b>

**Note 34 result of financial transactions**

	2008	2007
Price effect	1 392	-747
Exchange rate effect	607	-1 532
Gold value effect	1 052	557
Total	3 051	-1 722

The price effect consists of realised gains and losses on securities of SEK 1 436 million (-79) and unrealised losses on securities of SEK -44 million (-668), which have been transferred to the result due to write-down of the securities holding.

The exchange rate effect includes realised exchange rate gains and losses of SEK 2 488 million (580) and unrealised exchange rate losses of SEK -1 881 million (-2 112), which have been transferred to result due to the write-down of the foreign currency holding. The realised exchange rate effect includes SEK 0 million (473) 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. With effect from 2008, this item is deducted from the foreign exchange revaluations attributable to the Riksbank's IMF ratio.

The gold value effect includes a realised gain of SEK 1 052 million (561). Last year an unrealised gold option loss of SEK -4 million was reported due to write-down of the gold option holding.

**Note 35 Fee and commission income**

The item includes annual and transaction charges for the RIX system at SEK 43 million (33). Banknote and coin delivery charges ceased in 2007 in conjunction with the establishment of a new cash deposit structure.

**Note 36 Fee and commission expenses**

The item mainly consists of expenses for securities custody accounts.

**Note 37 Dividends received**

In 2008, dividend was received from BIS of SEK 45 million (46).

**Note 38 Other income**

The item other income includes SEK 813 million (-) for redemption of circulating banknotes that ceased to be legal tender after 1998. Furthermore, SEK 4 million (3) is included for the sale of coin rolls, etc. The remaining SEK 7 million includes items such as payment from SIDA (Swedish International Development Cooperation Agency) for staff on loan, SEK 4 million (1), and the sale of commemorative coins, SEK 1 million (1).

**Note 39 Staff costs**

	2008	2007
Salaries and benefits	-197	-196
Salary recorded as assets	5	5
Social security charges	-66	-66
	-258	-257
Pension premiums	-34	-31
Pension payments	-21	-25
Change in pension liability	6	8
Special wages tax	-15	-10
	-64	-58
Training	-6	-6
Staff representation	-2	-2
Other	-7	-6
	-15	-14
Total	-337	-329

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 14.0 million in 2008, broken down as follows:

	2008	2007
Stefan Ingves	1.9	1.7
Lars Nyberg	1.9	1.8
Irma Rosenberg	2.4	1.9
Lars E.O. Svensson	2.0	1.3
Barbro Wickman-Parak	1.9	1.1
Svante Öberg	1.9	1.8
Eva Srejber	0	0.5
Kristina Persson	0	0.6
Qualification period salaries	2.0	2.9
Total	14.0	13.6

In addition, the Governor of the Riksbank received a board fee of SEK 0.6 million (0.5) from the Bank for International Settlements in 2008.

The item Qualification period, salaries 2008, refers to Irma Rosenberg and 2007 refers to Eva Srejber, SEK 0.8 million and Kristina Persson, SEK 2.1 million. The General Council 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 person continues 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: 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 2008 totalled 354 (372) of which 152 (160) were women and 202 (212) men. The number of FTEs at the end of the year was 348 (364). Sick leave in 2008 was 2.4 per cent (4.2) of the employees' total working hours. Sick leave over a continuous period of 60 days or more in 2008 was 55.8 per cent (78.1) of total sick leave. Women's sick leave in relation to total regular working hours for women in 2008 amounted to 2.8 per cent (4.1), while the corresponding figure for men in 2008 was 2.0 per cent (4.2).

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

	2008	2007
29 or younger	0.5 %	1.3 %
30 – 49 år	1.2 %	2.3 %
50 or older	4.2 %	7.2 %

#### Note 40 Administration expenses

	2008	2007
Information, hospitality	-12	-13
Transport, travel	-13	-12
Consultancy assignments	-43	-40
Other external services	-66	-41
IT operation	-61	-61
Economics prize	-16	-16
Office and property maintenance	-47	-49
Other	-6	-5
Total	-264	-237

Information expenses include costs for the Riksbank's regular publications, such as the Monetary Policy Report, Financial Stability Report and Annual Report. In addition, SEK 1 million (1) is included for the Nobel Foundation's Museum Association for financing of information about the Economics Prize.

Costs for hospitality amounted to SEK 3.0 million (3.0).

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 43 million (40). This includes items such as IT consultants for SEK 28 million (29), including SEK 4 million (8) for consulting support for the RIX payment system and SEK 2 million (2) for the Caesar cash management system.

The largest single item in Other external services is statistics deliveries of SEK 52 million (30). The increase in costs for purchase of statistics is partly because production of balance of payment statistics was carried out in-house during most of 2007.

The item IT operations includes licensing expenses of SEK 41 million (39).

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 and maintenance of the Riksbank's premises, SEK 14 million (13), and SEK 11 million (12) for rent of premises.

#### Note 41 Depreciation of tangible and intangible fixed assets

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

#### Note 42 Banknote and coin expenses

Of the total cost for banknotes and coins of SEK 113 million (154), SEK 30 million (33) is in respect of the purchase of banknotes, SEK 75 million (114) the purchase of circulation coins and SEK 8 million (7) the purchase of commemorative coins.

#### Note 43 Other expenses

The item Other expenses refers to non-recurring expenses.

**Note 44 Memorandum items***Assets pledged*

Securities with a market value of SEK 8 567 million (14 104) have been pledged in connection with 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 10 270 million (8 679).

Undertaking to pay the BIS, three months after a demand to that effect, the remaining 75 per cent of the nominal amount of the Riksbank's shareholding in BIS. This undertaking corresponded to SDR 65 million (65), at the end of 2008, which is equivalent to SEK 785 million (664).

The nominal value of outstanding currency forward agreements, the book value of which is shown in Note 12, totalled SEK 706 million (113).

The nominal value of outstanding FX swap agreements, the book value of which is shown in Note 25, totalled SEK 224 266 million (15 469).

The nominal value of outstanding interest swap agreements, the book value of which is shown in Notes 12 and 25, totalled SEK – million (2 682).

The nominal value of outstanding gold option contracts, the book value of which is shown in Note 25, totalled SEK – million (108).

Within the framework of a swap agreement with the US central bank, the Federal Reserve, at 31 December 2008 the Riksbank still has the opportunity to borrow an additional USD 5 000 million, which is equivalent to SEK 39 225 million, in exchange for Swedish kronor.

Within the framework of a swap agreement with the Icelandic central bank Seðlabanki Íslands, at 31 December 2008 an undertaking to lend an additional EUR 350 million, which is equivalent to SEK 3 833 million, in exchange for Icelandic kroner.

Within the framework of a swap agreement with the Latvian central bank Latvijas Banka, at 31 December 2008 an undertaking to lend an additional EUR 157 million, which is equivalent to SEK 1 725 million, in exchange for Latvian lats.

The Riksbank also has an agreement with the European Central Bank with the equivalent purpose with respect to lending in euro in exchange for Swedish kronor. No amount is included in the agreement.

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 to SEK 16 million (16) in 2008.

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.

Outstanding claims at the end of 2008 amounted to about SEK 4 million. The Riksbank in turn has produced claims for about SEK 3 million.

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

AREA OF ACTIVITY	2008	SHARE	2007	SHARE
Monetary policy	193	25 %	187	24 %
Financial stability	84	11 %	85	11 %
Payment system	85	11 %	82	10 %
Cash management	214	27 %	251	32 %
Asset management	88	11 %	88	11 %
Statistics	77	10 %	65	8 %
Other international collaboration	22	3 %	17	2 %
General Council and Economics Prize	19	2 %	21	2 %
<b>Total</b>	<b>782</b>	<b>100 %</b>	<b>796</b>	<b>100 %</b>

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

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.

The allocation model is based on the arrangement of the profit and loss account, where the Riksbank's administrative expenses for 2008 amount to SEK 782 million (796).

Costs for the payment system consist of the Riksbank's costs for providing the RIX system, SEK 75 million, and the cost of The Riksbank's monitoring of the financial infrastructure, SEK 10 million.

### *Staff costs excluding IT personnel*

Staff costs for primarily the policy departments have been allocated directly to the respective core function. In all, about 200 (240) employees, 56 per cent (65) of a total of 354 (380), are directly involved in one of the core functions. The remaining 154 (140) staff members are located in the support functions such as IT, transport &

security surveillance, property and internal service. The costs for these staff members have been allocated using an index based on the number of directly involved staff members per core function in relation to the total number of directly involved staff members.

### *Administrative expenses, excluding IT expenses*

The Riksbank has implemented process accounting, which means that administrative expenses are directly allocated in relation to each core function at the time of registration of invoices.

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 predefined keys, most often consisting of a number of staff members per core function 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

function which is supported by the respective facility or 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.

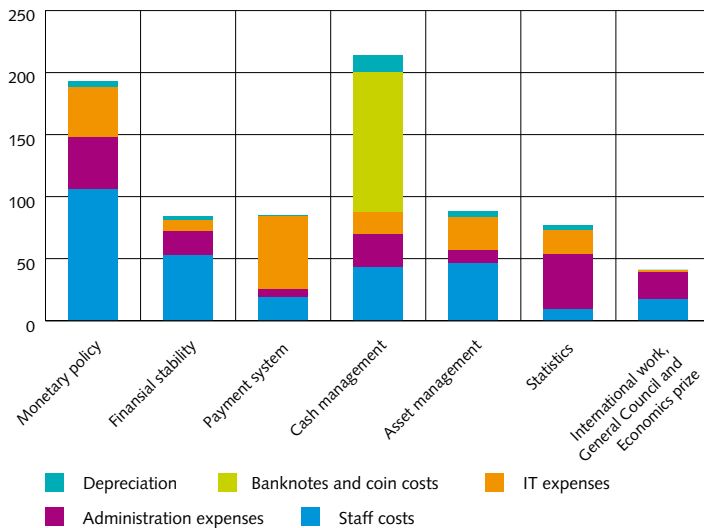
*Banknote and coin expenses*

Costs for purchasing banknotes and coins totalled SEK 113 (154) million in 2008. These costs have been allocated in their entirety to the cash management function.

*IT expenses*

The model for allocation of IT expenses is based on four 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. IT system costs are allocated based on the number of servers per system.

DIAGRAM 23  
Allocation of costs per area of activity 2008, SEK million.



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. In this overview the items result for the year, net result of financial transactions and revaluation accounts have been adjusted with SEK 1 733 million for 2005 and 2006 because of the change in accounting principles in 2008 for the IMF's balance denominated in Swedish kronor. This change does not affect 2004 or 2007 because of the write-down of SDR in these years, at the same time that the SDR revaluation account had no opening balance in either of these years.


Balance sheet	31.12.08	31.12.07	31.12.06	31.12.05	31.12.04
<b>Assets</b>					
Gold	29 976	25 827	22 222	22 235	17 393
Claims on residents outside Sweden denominated in foreign currency					
Receivables from the IMF	6 261	4 614	4 892	5 729	10 148
Balances with banks and security investments	194 187	167 942	162 292	167 429	135 108
	200 448	172 556	167 184	173 158	145 256
Claims on residents in Sweden denominated in foreign currency	196 124	-	-	-	-
Lending to monetary policy counterparties denominated in Swedish kronor					
Main refinancing transactions	-	7 199	6 700	9 600	17 000
Fine-tuning operations	-	1 787	267	-	-
Structural operations	264 800	-	-	-	-
Marginal lending facility	0	143	121	1	2
Other lending	1 662	-	-	-	-
	266 462	9 129	7 088	9 601	17 002
Other assets					
Tangible and intangible fixed assets	421	452	483	512	538
Financial assets	524	524	594	594	410
Derivative instruments	8	497	379	19	-
Prepaid expense and accrued income	5 931	2 612	2 429	2 183	1 963
Other assets	317	329	306	305	294
	7 201	4 414	4 191	3 613	3 205
<b>Total Assets</b>	<b>700 211</b>	<b>211 926</b>	<b>200 685</b>	<b>208 607</b>	<b>182 856</b>
<b>Liabilities And Capital</b>					
Banknotes and coins in circulation					
Banknotes	106 266	108 517	106 862	105 516	103 452
Coins	6 007	5 807	5 518	5 559	5 442
	112 273	114 324	112 380	111 075	108 894
Liabilities to monetary policy counterparties in Swedish kronor					
Deposit facility	32	143	121	23	86
Fine-tuning operations	206 664	-	-	227	527
	206 696	143	121	250	613

Cont. Liabilities And Capital	31.12.08	31.12.07	31.12.06	31.12.05	31.12.04
Debt certificates issued	48 946	-	-	-	-
Liabilities to residents in Sweden denominated in Swedish kronor	104	-	-	-	-
Liabilities to residents outside Sweden denominated in Swedish kronor	189 248	82	66	94	306
Liabilities to residents in Sweden denominated in Swedish kronor	1 862	-	-	-	-
Liabilities to residents outside Sweden denominated in foreign currency	8 688	12 047	13 906	10 159	4 912
Counterpart of SDRs allocated by the IMF	2 979	2 517	2 540	2 797	2 537
Other liabilities					
Derivative instruments	9 254	17	6	1	85
Accrued expenses and prepaid revenues	697	114	188	111	100
Other liabilities	47	53	68	82	69
	9 998	184	262	194	254
Provisions	264	206	276	289	304
Revaluation accounts	49 228	20 081	10 221	21 947	1 523
Equity capital					
Capital	1 000	1 000	1 000	1 000	1 000
Reserves	57 742	57 247	53 769	55 813	65 317
	58 742	58 247	54 769	56 813	66 317
Result for the year	11 183	4 095	6 144	4 989	-2 804
<b>Total Liabilities And Equity</b>	<b>700 211</b>	<b>211 926</b>	<b>200 685</b>	<b>208 607</b>	<b>182 856</b>
<b>Profit and Loss Account</b>	2008	2007	2006	2005	2004
Interest income	10 610	7 566	6 386	5 421	4 778
Interest expense	-2 600	-1 089	-826	-320	-290
Net result of financial transactions	3 051	-1 722	1 025	617	-6 317
Fee and commission income	43	43	37	45	19
Fee and commission expenses	-8	-10	-9	-7	-9
Income from equity	45	131	45	43	42
Other income	824	33	190	10	24
Total net income	11 965	4 952	6 848	5 809	-1 753
Staff costs	-337	-329	-316	-308	-309
Administration expenses	-264	-237	-223	-249	-231
Depreciation of tangible and intangible assets	-68	-76	-100	-84	-69
Banknote and coin expenses	-113	-154	-65	-179	-160
Other expenses	-61	-	-	-	-282
Total expenses	-782	-857	-704	-820	-1 051
Result for the year	11 183	4 095	6 144	4 989	-2 804

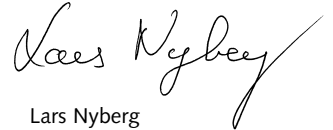
Stockholm, 5 February 2009



Stefan Ingves  
Riksbank Governor




Svante Öberg  
First Deputy Governor



Lars Nyberg  
Deputy Governor



Lars E.O. Svensson  
Deputy Governor



Barbro Wickman-Parak  
Deputy Governor



## ■ Proposal for the allocation of profits for 2008

When reviewing the Riksbank's management for the year 2007 (2007/08: Fiu23), the Riksdag approved the proposal put forward by the General Council that the allocation of profits for 2007 should be based on the 1988 principle for the allocation of profits with the supplements to the principle made since then. In brief, this principle 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 has applied the same basis for calculation for 2008.

Pursuant to Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council has received a report for the financial year 2008 from the Executive Board. The General Council notes that the Riksbank, with the application of the current accounting principles, reports a profit for 2008 amounting to SEK 11 183 million. In accordance with the 1988 principle for the allocation of profits and the supplements to the principle made since then, the following adjustments have been made to the reported result when calculating the result used as a basis for the transfer:

1. The reported result has been positively affected by an exchange rate gain of SEK 607 million. In accordance with the principle for the allocation of profits, this gain has been excluded when calculating the result on which the transfer to the Treasury is based.
2. The Riksbank has reported a gain of SEK 1 052 million as a result of gold transactions in 2008. The General Council has, in accordance with the previously adopted supplement to the principle for profit allocation, excluded this gain when calculating the allocation of the profits.
3. An unrealised price effect gain of SEK 8 794 million is not included in the reported result because of the change in accounting princip-

les that came into force in 2004. The General Council has included this gain when calculating the allocation of profits in accordance with the principle.

The General Council proposes, as described below, a transfer to the Treasury of SEK 5 900 million.

As the proposed transfer is lower than the profits reported for the year, it is proposed, according to the principle for allocation of profits, that SEK 2 402 million be transferred to the contingency fund and SEK 2 881 million be transferred to the balancing account. The basis used for calculating the proposal for the allocation of profits is presented in the appendix.

The Audit Unit of the General Council has examined the basis for calculating the proposal for the allocation of profits. The Audit Unit has found no reason to raise any objections.

The profit for 2008, before appropriations, amounts to SEK 11 183 million, and the General Council decided on 6 February 2009 to propose the following allocation of the Riksbank's profits:

SEK million	
Transfer to the Riksbank's contingency fund	-2 402
Transfer to the Riksbank's balancing account	-2 881
Transfer to the Treasury	5 900

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 5 February 2009, for the financial year 2008. 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 book-keeping and annual accounts adopted by the Executive Board of the Riksbank.

It is the opinion of Riksrevisionen that the Annual Report gives a true and fair 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 2008.

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

*Stockholm, 6 February 2009*

*Filip Cassel*

*Anders Herjevik*

## ■ The Riksbank's consultation work

Every year, the Riksbank makes responses to a large number of consultation documents. With effect from 1 January 2008, work with consultation responses is carried out according to a new system in which the head of the department is responsible for handling consultation requests within the department's area of responsibility. The responsibility of the head of the department includes providing the Executive Board with background information for assessing whether a consultation response should be decided by the Executive Board, and in those cases present to the Executive Board a draft of a consultation response. The head of the department takes the decision in those cases where the Executive Board will not take a decision on consultation responses. Executive Board members therefore no longer have ultimate responsibility for preparing matters relating to consultation documents. The General Secretariat is responsible for coordinating and administering consultation requests.

Requests for consultation in 2008 focused on matters involving regulation within the financial sector. Subjects mainly involved proposals for measures to promote the stability of the financial system and government guarantees to banks, as well as consumer protection and supervision in the financial field. A number of requests for consultation also addressed proposals for implementing EU regulations in Swedish legislation and regulations from Finansinspektionen (Swedish Financial Supervisory Authority).

Moreover, the Executive Board and the General Council addressed important fundamental issues for the Riksbank in a joint response to the report on the Riksbank's financial independence. The Executive Board addressed the issue of the Riksbank's ability to carry out its duties in its comments on the ministerial memorandum on the Treaty of Lisbon. In addition, the Riksbank responded to a number of consultation documents on issues within the fields of crisis preparedness and safety and security in the payment system.

The Riksbank submitted the following consultation responses in 2008. Unless stated otherwise, decisions were taken by the head of the involved department.

### MINISTRY OF FINANCE

17.12.2008

Comments on the consultation document concerning implementation of the Payment Services Directive 2007/64/EC

16.12.2008

Internal consultation comments concerning the Deposit guarantee commission's supplementary mandate

20.11.2008

Comments on the consultation document concerning the Acquisition of qualifying holdings in financial institutions etc. (Ds 2008:71)

20.11.2008

Comment on the consultation document regarding the European Commission proposal for a directive on the taking up, pursuit of and prudential supervision of the business of electronic money institutions

26.10.2008

Opinion on the regulation regarding government guarantees to banks, etc. The Executive Board of the Riksbank has taken a decision in this matter.

20.10.2008

Comment on a document from the Ministry of Finance to the Council on Legislation concerning measures for promoting the stability of the Swedish financial system. The Executive Board of the Riksbank has taken a decision in this matter.

16.10.2008

Comments on the consultation document about an amendment to the EC Regulation (2533/98) concerning the collection of statistical information by the European Central Bank

14.10.2008

Comments on the Swedish National Debt Office's proposed guidelines for central government debt management 2009–2011

07.10.2008

Comments on financing to support sales (Ds 2008:59)

08.04.2008

Comments on the Swedish Agency for Public Management report The Third Money Laundering Directive – supervision and organisation

03.13.2008

Comments on the report Action plan for small savers – a ten-point action plan (2007:20). The Executive Board of the Riksbank has taken a decision in this matter.

08.02.2008

Response regarding the report The Riksbank's financial independence (SOU 2007:51). The Executive Board and the General Council of the Riksbank took a joint decision in this matter.

30.01.2008

Comments on the memorandum concerning the regulatory framework of stock exchanges

23.01.2008

Comments on the consultation document concerning extension of the transition time for certain financing enterprises

### FINANSINSPEKTIONEN (SWEDISH FINANCIAL SUPERVISORY AUTHORITY)

17.10.2008

Comments on Finansinspektionen's consultation document on Amendments to the accounting regulations

05.09.2008

Comments on Finansinspektionen's memorandum A principle-based approach – focus on the purpose

05.09.2008

Comments on Finansinspektionen's memorandum Clarification of the definition of banking business

06.02.2008  
Comments on consultation document concerning the proposed amendment to FFFS 2007:3

05.20.2008  
Comments on consultation document concerning proposed amendments to the periodic reporting requirements for credit institutions and investment firms

08.04.2008  
Comments on Finansinspektionen's proposal for new appendices to investment fund regulations

14.03.2008  
Comments on consultation document about proposed new investment fund regulations

#### **MINISTRY OF DEFENCE**

10.10.2008  
Comments on the consultation document concerning protection for critical infrastructure. The Executive Board of the Riksbank has taken a decision in this matter.

#### **MINISTRY OF JUSTICE**

20.11.2008  
Comments on the Ministry of Justice's progress report of the 2007 insolvency inquiry The road back to solvency for the over-indebted (SOU 2008:82)

05.09.2008  
Comment on the Ministry of Justice's memorandum Stronger privacy protection in connection with credit reporting (Ds: 2008:34)

07.01.2008  
Comments on consultation document concerning Removal of the audit requirement for small companies (SOU 2008:32)

03.10.2008  
Comments on the consultation document concerning Changes in the EU accounting directive (Ds 2008:5)

#### **THE SWEDISH EMERGENCY MANAGEMENT AGENCY**

06.11.2008  
Final report concerning the SEMA project on critical dependencies in society

05.09.2008  
Comment on the joint exercise evaluation, SAMÖ 2008

07.02.2008  
Comments on the consultation document concerning Civil servant in preparedness and management function. The Executive Board of the Riksbank has taken a decision in this matter.

#### **SWEDISH NATIONAL DEBT OFFICE**

27.10.2008  
Comments on the proposal for guarantee agreements and guarantee templates

#### **MINISTRY OF HEALTH AND SOCIAL AFFAIRS**

14.03.2008  
Comments on the memorandum From health insurance to work

30.01.2008  
Comments on the memorandum Implementation of a rehabilitation chain

30.01.2008  
Comments on the memorandum One-year limit for sick pay and implementation of extended sick pay

#### **PRIME MINISTER'S OFFICE**

03.13.2008  
Comments on the ministerial memorandum concerning the Treaty of Lisbon (Ds 2007:48) parts 1–2. The Executive Board the Riksbank has taken a decision in this matter.

#### **MINISTRY FOR FOREIGN AFFAIRS**

19.11.2008  
Comments on the consultation document concerning Swedish exports and internationalisation – Development, challenges, corporate climate, promotion (SOU 2008:90)

05.12.2008  
Comments on the report Immunity for governments and their property (SOU 2008:2)

08.04.2008  
Comments on the consultation document concerning Turning Sida's "Start Programmes" over to Swedfund (Ds 2008:22)

14.03.2008  
Comments on the consultation document concerning International sanctions (SOU 2006:41)

## ■ 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. By publishing this report the Riksbank makes its assessments generally accessible, which stimulates interest in and facilitates understanding of monetary policy.

### **MONETARY POLICY UPDATE**

The Monetary Policy Update is published three times a year, between two monetary policy reports. The update contains a limited number of forecasts and describes the Riksbank's assessments in conjunction with monetary policy decisions that are not based on a Monetary Policy Report.

### **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 on the subject.

### **SVERIGES RIKSBANK ECONOMIC REVIEW**

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

### **MATERIAL FOR ASSESSING MONETARY POLICY**

Material for Assessing Monetary Policy reports on the monetary policy conducted by the Riksbank over the immediately preceding years. It contains data and evaluations necessary for the Riksdag to be able to evaluate monetary policy. Up until 2007 the evaluation was included in the first Monetary Policy Report each year.

### **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)**

All of the Riksbank's publications are available on its website ([www.riksbank.se](http://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. The Riksbank's economic comments published in the form of short studies and polemical articles are collected on the Riksbank's website.

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## ■ Glossary

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

**Balance on current account** Statistical report 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.

**BIS, Bank for International Settlements** Coordinating body for central banks with headquarters in Basel. Carries out investigations and formulates norms and standards for financial activities. BIS also has deposits from and lending to central banks. The Riksbank is a partner in BIS and is represented on its Board of Directors.

**Central bank** Institution responsible for monetary policy, i.e. changing the interest rate to maintain price stability. Central banks are usually also responsible for maintaining stability of the payment system and supplying legal tender. The Riksbank is Sweden's central bank. In other countries central banks may also have other duties such as being responsible for financial supervision or management of the central government debt.

**Clearing** Part of a settlement of payment that reports instructions about transfer of funds to the payee's account.

**CLS, Continuous Linked Settlement** International system for clearing and settlement of foreign exchange transactions.

**Commercial papers** Financial instruments issued by companies and used for short-term borrowing in the money market.

**CPI, consumer price index** Statistical measure of consumer price trends. Measured by Statistics Sweden (SCB) every month. The Riksbank's inflation target is expressed in terms of the annual per cent change in the CPI.

**CPIF, consumer price index with fixed mortgage rate** Statistical measure of consumer price trends excluding the direct effects of changes in mortgage rates.

**CPIX, underlying inflation** Statistical measure of inflation that does not take into consideration more temporary effects. Calculated monthly by Statistics Sweden as CPI excluding mortgage costs and adjusted for the direct effects of changes in indirect taxes and subsidies.

**Credit facility** Agreement about credit that may be used at a later date. Usually this type of credit facility entails a fee for the party taking the loan. Also called loan facility.

**Currency reserves** See gold and currency reserve.

**Currency swap** See swap facility.

**Deposit guarantee** Government guarantee for funds deposited in accounts at affiliated credit institutions. If a credit institution becomes bankrupt, customers receive their deposited funds back, usually up to a certain established amount.

**Deposit guarantee fund** Government fund to finance future expected costs of the Government's obligations for the deposit guarantee. Financed by a special fee paid by banks and certain other financial institutions that have permission from Finansinspektionen to deposit customers' funds into accounts. The size of the fund in 2008 was SEK 18 billion.

**Derivative instruments** Financial instrument that entails agreements on commitments, rights or other prerequisites at a given future point in time. The value of a derivative instrument is linked to an underlying asset. The most common derivative instruments are options, forwards and swaps.

**Discount rate** Interest rate used to calculate the present value of a future amount. The risk-free interest rate plus a risk premium for the relevant investment are often used to determine the discount rate.

**Duration** Measure of how sensitive the value of an interest-bearing security is to changes in the interest rate level. States how many per cent the price of the security changes when the interest rate changes by one percentage point.

**ECB, European Central Bank** Joint central bank for the EU member states which have adopted the euro. The ECB has its head office in Frankfurt. The Bank's duties are stipulated in a statute that is part of the EU treaty. The goal of the ECB's monetary policy is to maintain price stability in the euro area. The Governing Council is the highest decision-making body of the ECB. It consists of the six members of the Executive Board of the ECB and the governors of the national central banks in the countries that adopted the euro.

**ECB General Council** Consultative body within the European System of Central Banks (ECSB) consisting of the governors of all EU central banks as well as 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, the ECOFIN Council issues and adopts, together with the European Parliament, economic policy guidelines about financial legislation and the European Union's budget of around EUR 100 billion.

**ECSB, European System of Central Banks** Collective name for the ECB and the central banks in all EU member states.

**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.

**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).

**Euro System** Collective name for the ECB and the central banks in the countries that adopted the euro as their sole currency.

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

**Executive Board of the Riksbank** Six members appointed by the General Council of the Riksbank with term of office of five or six years. 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.

**Financial markets** Collective term for the markets where financial assets are bought and sold. The markets in Sweden include the stock, fixed income and foreign exchange market.

**Financial system** Consists of banks and other enterprises, 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 (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.

**Fixed exchange rate** System in which the exchange rate is held at a specific level in relation to one or more currencies. A country may either peg the value of its currency to another currency, or several countries may cooperate in a foreign exchange system.

**Foreign exchange rate policy** Measures that a central bank takes to influence its own exchange rate in relation to other currencies. Called also exchange rate policy. In Sweden the Government decides whether the exchange rate will be variable or fixed and the Riksbank then takes care of daily policy within the framework of the decided system.

**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

**GDP, gross domestic product** Value of all goods and services produced in the country to be used for consumption, export and investments during a period, usually one year or a quarter.

**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 term 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.

**Gold and 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.

**HICP, harmonised consumer price index** Harmonised index for consumer prices used in the EU. Consists of the CPI excluding mortgage costs, tenant-owned housing charges, lotteries, pools and totaliser betting, etc. HICP also includes certain costs not contained in the CPI at present, e.g. childcare charges.

**IMF, International Monetary Fund** Body that works for the stability of the global financial system and to avoid international crises. Monitors and analyses the economic development of the over 185 member states, provides technical assistance and lends money to countries carrying out economic adjustment programmes.

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

**Inflation measure** There are several different measures of inflation; see e.g. CPI, CPIF, CPIX or HICP.

**Information ratio** Measures the correlation between the return on a portfolio in relation to the benchmark and its active risk to show whether active management has been profitable. Ratios above zero indicate that management was profitable.

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

**Liquidity** Measure of the ability of a company or organisation to meet payment obligations in the short term. Can also describe how quickly it is possible to convert an asset into money.

**Liquidity assistance** Measures that a central bank may take to support the ability of one or more financial institutions to meet payment obligations in the short term with the purpose of avoiding a serious disruption in the financial system and strengthening confidence in the payment system.

**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 exchange rate policy aim.

**Monetary policy** Measures that a central bank takes to maintain price stability in the economy. Monetary policy can also affect the exchange rate and the effects of economic trends.

**Money market** Part of the credit market that relates to loans and investments with a shorter term than a year, such as Treasury bills and certificate. One of the most important functions of the money market is to ensure access to liquidity for banks and other financial institutions.

**NASDAQ OMX DM** Clearing organisation for derivative instruments. Part of operations at NASDAQ OMX Nordic Exchange Stockholm AB.

**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 interest rate** 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

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

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

**Policy rates** Interest rates that a central bank sets for the purpose of implementing monetary policy. In Sweden the policy rates are the repo rate and interest rates on deposits from and loans to the banking system.

**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  $\pm$ 1 per-centage point. This goal should usually be achieved in two years time.

**Real-time gross settlement** Continuous processing and settlement of payments as orders are received.

**Repo, repurchase agreement** 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 Riksbank accordingly receives its money back and the security returns to its original owner. The market participants call the Riksbank's repurchase of securities for a reverse repo. The Riksbank usually carries out repos every week.

**Repo rate** The Riksbank's most important 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 repurchase agreements.

**Riksbank Certificate** Security with a short maturity that the Riksbank may issue to absorb surplus cash that arises in the banking system as a result of the Riksbank lending Swedish kronor in order to make it easier for banks to find funding in the short term.

**Riksdag Committee on Finance** Parliamentary committee that prepares matters concerning economic issues including the activities of the Riksbank and the central government budget.

**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.

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

**Seigniorage** Revenues that a central bank receives on its coins and banknotes. Revenues derive from the return on the securities that the central bank buys with the money.

**Settlement** Final regulation of a debt, when money or securities are transferred from one party to another, usually payment from one account to another.

**Solvency** Measure of a company's financial position and strength. Shows the company's ability to pay its liabilities as they fall due.

**SOM institute** Research and conference centre jointly managed by the Department of Journalism and Mass Communication (JMG), the Department of Political Science, and the Research Centre for the Public Sector (CEFOS) at the University of Gothenburg.

**Stability fund** Government fund established in October 2008 to deal with any future solvency problems in Swedish financial institutions.

**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.

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

**Swap facility** Temporary arrangement for the mutual exchange of different currencies or securities with different yield terms. Prices and terms for using the facility are stipulated in advance between the parties.

**SWIFT, Society for Worldwide Interbank Financial Telecommunication** System used by agents on the financial markets to send international payment messages by telephone, permitting great speed and high security.



**Temporary liquidity assistance** Credit that a central bank may grant a financial institution on special conditions, for example by lending against other collateral than what is usually required. Alternatively, the central bank may issue guarantees to enable an institution that lacks collateral to borrow in the market.

**Value-at-Risk, VaR** Statistical method that describes the maximum potential loss that may arise with a particular probability during a particular period of time. Used by investors to measure the risk of a specific asset or a portfolio of assets.

**Variable or floating exchange rate** System in which the value of a currency is determined by the market; in other words, by supply and demand. The value of currencies such as the Swedish krona is determined in this manner.

**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 organisation that holds registers of almost all shares and debt securities traded in the Swedish financial markets. As well as keeping the register, it clears and settles transactions in Swedish shares and debt securities. VPC AB is subject to supervision by Finansinspektionen

## ■ The Sveriges Riksbank's Prize in Economic Sciences in Memory of Alfred Nobel 2008

The 2008 Sveriges Riksbank's Prize in Economic Sciences in Memory of Alfred Nobel was awarded to Paul Krugman. He has shown how economies of scale affect trade patterns and location of economic activity. He has thereby integrated the previously disparate research fields of international trade and economic geography.



Paul Krugman at Princeton University, NJ, USA.

The 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 the Sveriges Riksbank's Prize in Economic Sciences in Memory of Alfred Nobel.

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

Paul Krugman was born in 1953 in New York, NY, USA (US citizen). Ph.D. 1977 from Massachusetts Institute of Technology, Cambridge, MA, USA. Since 2000, Professor of Economics and International Affairs at Princeton University, NJ, USA.

### 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	2008 P. Krugman
1988 M. Allais	
1989 T. Haavelmo	





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