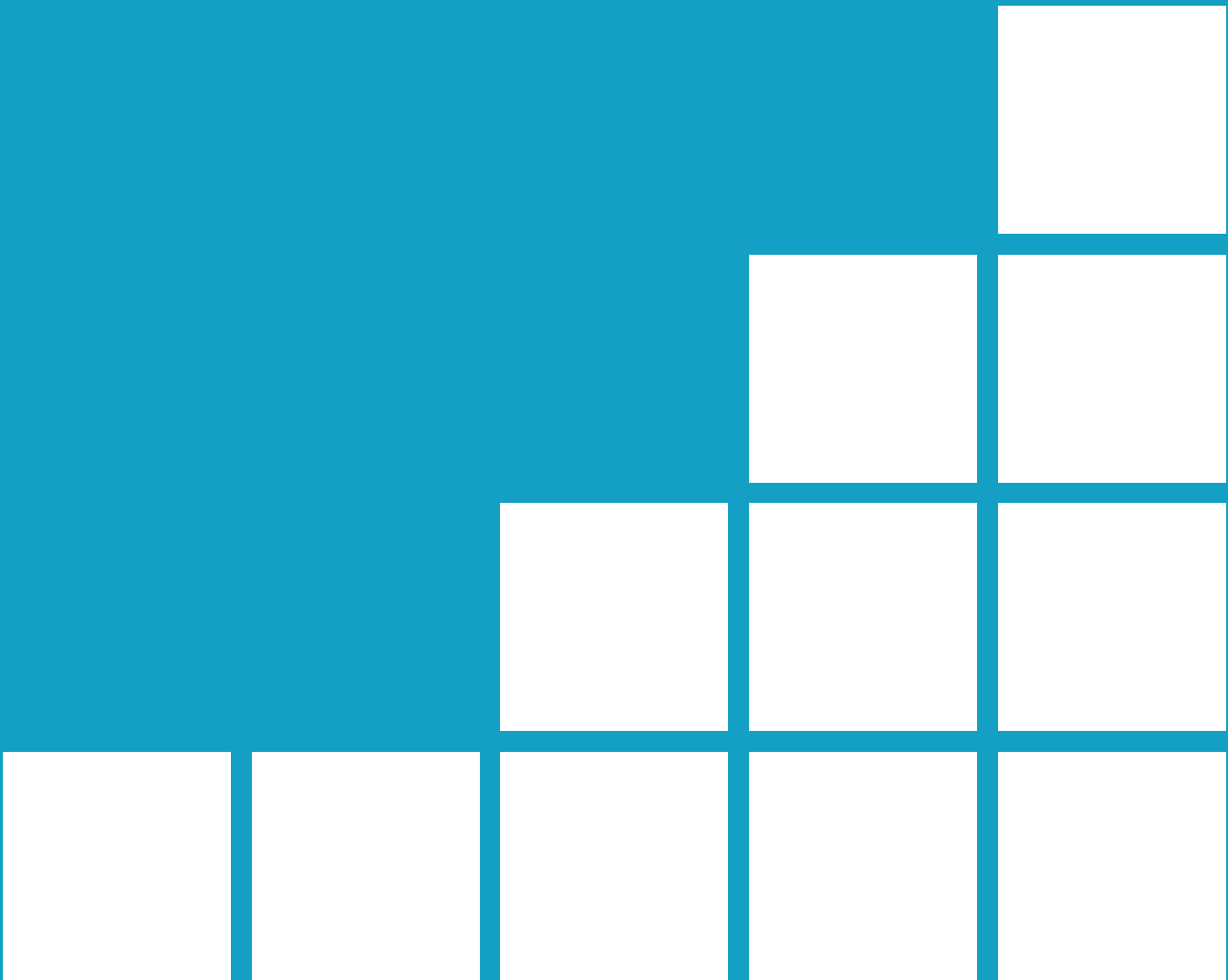


# Annual Report 2010





## ■ The tasks and roll of the Riksbank

**The 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, with the objective of maintaining price stability. The Riksbank is also entrusted with the task of promoting a safe and efficient payment mechanism.**

### **Maintaining the value of money – price stability**

Under the Sveriges Riksbank Act, the Riksbank shall maintain price stability, which means that inflation should be low and stable. This provides a sound basis for favourable and sustainable growth. The Riksbank has specified an inflation target according to which the annual change in the consumer price index (CPI) is to be 2 per cent.

The Riksbank determines the level of 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 mechanism – financial stability**

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

The Riksbank analyses and supervises 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 banking groups, the functioning of the financial markets and the financial infrastructure required for the payments to function smoothly. 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 independent status. This means that the Executive Board of the Riksbank makes monetary policy decisions without instruction from any 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 long-term perspective and that there is a sound basis for the credibility of the inflation target.

The Riksbank's independent status is also reflected in its financial independence, guaranteed through its right to manage financial assets. The Riksbank manages financial assets primarily to ensure that it can fulfil its statutory objective and perform its tasks. On the basis of this, asset management concentrates on achieving as high a long-term return as possible in relation to the risk taken.

### **Transparency 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 be effective.

Openness and clarity also create confidence in how the Riksbank assesses and handles the situation on the financial markets. Openness and clarity in the Riksbank's assessments of financial stability is one of several conditions that enable economic agents to form an opinion of the risks in the financial system, and to act accordingly.

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 on its website minutes and background material from the meetings of the Executive Board, as well as the minutes of the monetary policy meetings. Moreover, the models used by the Riksbank in its analyses – from macroeconomic forecast models to models for stress tests of banks – are also publicly available.



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# The General Council's annual report and proposal for allocation of the Riksbank's profits for 2010


## ■ Annual report of the General Council

The General Council consists of eleven members and as many deputies. The members are appointed by the Riksdag, after a general election, for a term of office of four years. The General Council selects from among its number a Chairman and a Vice Chairman. The General Council's account of activities for 2010 reports that the Council has met on 11 occasions during the year and gives an overall description of the matters discussed and the information the General Council has received at its meetings. The Council's report also states how it has conducted its controlling function.

The members of the General Council until 18 October 2010 were Johan Gernandt (Chairman), Leif Pagrotsky (Vice Chairman), Sinikka Bohlin, Peter Egardt, Susanne Eberstein, Bo Bernhardsson, Elizabeth Nystrom, Anders Flanking, Allan Widman (from 4 March 2010), Kjell Nordstrom and Ebba Lindsö. During the same period the deputies were Pär Nuder, Anne-Katrine Dunker, Carin Lundberg, Stephan Tolstoy, Fredrik Olovsson, Lena Sommestad, Ulla Löfgren, Håkan Larsson, Carl B Hamilton and Ulf Perbo.

Since 19 October the General Council consists of the following members: Johan Gernandt (Chairman), Leif Pagrotsky (Vice Chairman), Peter Egardt, Sonia Karlsson, Bertil Kjellberg, Anders Karlsson, Gun Hellsvik, Lena Sommestad, Allan Widman, Peter Eriksson and Anders Flanking. The deputy members are Hans Birger Ekström, Tommy Waidelich, Ulf Sjösten, Ann-Kristine Johansson, Chris Heister, Bosse Ringholm, Ebba Lindsö, Catharina Bräkenhielm, Christer Nylander, Helena Leander and Håkan Larsson.

### The General Council's tasks

The General Council appoints the members of the Executive Board and decides on their salaries and other terms of employment. It also adopts the Riksbank's Rules of Procedure and decides on the design of banknotes and coins. The General Council also has the task of regularly monitoring the Riksbank's activities and how the Executive Board manages its business. One of the ways the General Council can perform its supervisory role is through the Chairman and Vice Chairman having the right to attend and speak at the Executive Board meetings, though not the right to vote or make proposals. The General Council also has an Audit Unit that, among other things, examines how members of the Executive Board perform their duties and 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 authorised public accountant.

The General Council submits proposals to the Riksdag concerning the allocation of the Riksbank's profits and makes a recommendation to the Riksdag with regard to the discharge from liability of the members of the Executive Board.

The General Council submits consultation responses within its field of competence and presents pro-

posals, in consultation with the Executive Board, to the Riksdag and the Government regarding government amendments to statutes or other measures in its sphere of responsibility.

Twice a year the Chairman and Vice Chairman report to the Riksdag Committee on Finance.

*Johan Gernandt,  
Chairman and  
Leif Pagrotsky,  
Vice Chairman*





## The General Council's activities in 2010

During the year the General Council held 11 meetings.

The General Council made decisions during the year on the Executive Board's terms of employment and on the external assignments of the members of the Executive Board. The General Council also decided on the nomination to the Riksdag's Nominations Committee of a member of the board of the foundation "Riksbankens Jubileumsfond".

### Communications to the Riksdag

In 2010 the General Council together with the Executive Board made a submission to the Riksdag on certain areas that require investigation as a result of the financial crisis. The purpose of the inquiry's work would be to establish a coherent and effective framework that can contribute to maintaining financial sta-

bility and to minimising the costs to both the economy and consumers. The proposal was that the approach should be broad and include the allocation of roles between public authorities and the Riksbank's tools in the field of financial stability. The Chairman and Vice Chairman of the General Council together with the Governor of the Riksbank wrote an Economic Commentary with reference to the submission to the Riksdag. The Commentary was published on the Riksbank's website.

During the year the Executive Board consulted three times with the General Council concerning communications to the Riksdag. Two of the communications concerned amendments to the Sveriges Riksbank Act regarding the Riksbank's possibilities of collecting statistical data and amendments on account of a new banknote and coin series (see also the section "Designing banknotes and coins"). The third communication referred to an extended commitment under the International Monetary Fund's modified New Arrangements to Borrow (NAB).

### Designing banknotes and coins

Four members of the General Council and four external experts make up the Drafting Committee for the Design of Banknotes and Coins. The Committee is led by member of the General Council Peter Egardt. Other members from the General Council since 19 November 2010 are Ebba Lindsö, Sonia Karlsson and Anders Karlsson. Experts on the Committee are the State Herald, the Director of the Royal Coin Cabinet and one representative each of the National Museum of Fine Arts and the Royal Swedish Academy of Fine Arts. The task of the Committee is to prepare matters concerning graphic and artistic design of banknotes and coins in general.

The General Council received regular information on the continued work on a new Swedish banknote and coin series. During the spring the Executive Board consulted with the General Council on a submission to the Riksdag proposing amendments to the Sveriges Riksbank Act regarding the banknote and coin denominations that the Riksbank may issue. The General Council had no objection to the Executive Board making the submission to the Riksdag, but at the same time considered that the Executive Board should not propose in its submission that the Riksbank should be given the possibility of issuing coins in the denomination of 20 kronor. The General Council's opinion was that the 20-krona banknote should not be replaced with a coin. The Riksdag considered that the question of introducing a 20-krona coin should be deferred until further notice and rejected that part of the Executive Board's proposal. In other respects the submission was approved.

### Follow-up of the work of the Executive Board

The Chairman and Vice Chairman of the General Council followed the work of the Executive Board during the year, partly through its right to participate in the Executive Board meetings and some informal meetings. This can be seen as a part of the exercise of the General Council's control function.



The members of the Executive Board normally participated in the General Council meetings and regularly contributed accounts of important decisions and events in the Riksbank's activities. Reports were submitted on current monetary policy and the work of monitoring stability in the financial system. The General Council also received regular information on the state of the financial markets, both in Sweden and globally. The General Council received information on the budget and the business plan, as well as the regular follow-up of risks and performance in asset management, the outcome of activities in other respects and the activities of the internal audit department. In February the General Council was informed that the Executive Board had decided to set up an inquiry led by the Riksbank on risks in the Swedish housing market.

The General Council was informed of the consultation responses decided on by the Executive Board during the year. The Executive Board also provided information about important international meetings and important discussions in other respects in various international bodies.

To supplement the information at the meetings, on a couple of occasions the Executive Board invited the General Council to breakfast meetings to provide direct information after monetary policy decisions that were not close to the ordinary General Council meetings. Likewise, the members of the General Council were invited to the information seminars held by the Riksbank for the Riksdag's committees.

### The General Council's examination of the Riksbank's activities

During the year a new procurement was conducted for a consultant for the General Council's Audit Unit. The result was a new agreement with BDO Nordic Stockholm AB for a period of two years.

During the spring the General Council established an audit plan for the General Council's Audit Unit. In accordance with the plan, the Audit Unit examined the Riksbank's proposal for the allocation of profits, the management of the foreign currency reserve with a focus on the Bank's enforcement of restrictions decided by the Executive Board, as well as the Executive Board's measures in response to internal audit reports. The General Council's Audit Unit also followed up and performed an actual cost calculation of the sales of the 2010 commemorative coin on the occasion of the marriage of Crown Princess Victoria and Daniel Westling. The examinations did not lead to any comments. The General Council also received information about the Swedish National Audit Office's annual examination of the Riksbank's activities as well as about the measures taken in response to the Swedish National Audit Office report.

During the General Council's regular follow-up of the work of the Executive Board members in 2010, nothing emerged to give reason for the General Council to direct any criticism against the performance of their duties.



*Johan Gernandt (M),  
Chairman  
Member of the Swedish Bar  
Association, Law firm Vinge  
Chairman, Arbitration  
Institute of the Stockholm  
Chamber of Commerce*



*Leif Pagrotsky (S),  
Vice Chairman  
Member of the Riksdag  
Former Minister*

*(M) = Moderate Party  
(S) = Social Democratic Party  
(FP) = Liberal Party  
(MP) = Green Party  
(C) = Centre Party*



*Peter Egardt (M)  
County Governor,  
County of Uppsala  
Chairman, Swedish National  
Space Board and Swedish  
National Defence College*



*Sonia Karlsson (S)  
Former Member of  
the Riksdag*



*Bertil Kjellberg (M)  
Former Member of  
the Riksdag  
Member of the Swedish  
Bar Association, Law firm  
Berggren & Stoltz*



*Anders Karlsson (S)  
Member of the Riksdag*



*Gun Hellsvik (M)  
Former Minister  
Member of the Riksdag  
Senior Lecturer*



*Lena Sommestad (S)  
Former Minister  
Professor*



*Allan Widman (FP)  
Member of the Riksdag  
Member of the Swedish  
Bar Association*



*Peter Eriksson (MP)  
Member of the Riksdag  
Chairman, Committee  
on the Constitution  
Economist*



*Anders Flanking (C)  
Member of the Riksdag*

## ■ Proposal for the allocation of profits for 2010

Under Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council shall present proposals to the Riksdag (the Swedish Parliament) and the Swedish National Audit Office regarding the allocation of the Riksbank's profits. The General Council applies a principle for calculation that can be expressed in brief by stating that 80 per cent of the past five years' average profit, excluding the exchange rate and gold value effects, but including the price effects reported in the revaluation account on the balance sheet, shall be transferred to the Treasury. For 2010 the General Council therefore proposes a transfer of SEK 6 200 million.

When reviewing the Riksbank's management for 2009 (report 2009/10:FiU23) the Riksdag approved the proposals put forward by the General Council that the allocation of profit for 2009 should be based on the 1988 principle for allocation of profits with the supplements to the principle made since then. The principle implies in brief that 80 per cent of the past five years' average profit, excluding the exchange rate and gold value effects, but including the price effects reported in the revaluation account on the balance sheet, shall be transferred to the Treasury. The exchange rate and gold value effects and normally 10 per cent of adjusted average profit shall be transferred to or from the contingency fund. The amount remaining after this shall be transferred to or from the balancing fund. The General Council applies the same basis for calculation for 2010.

In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council has received a report for the 2010 financial year from the Executive Board. The General Council notes that on the basis of current accounting policies the Riksbank reports a profit for 2010 amounting to SEK 548 million. In accordance with the 1988 principle of allocation of profits and the supplements to the principle made since then, the following adjustments are made to the accounting profit when calculating the result used as a basis for the transfer:

- The accounting profit was negatively affected by an exchange rate loss of SEK 7 088 million. In accordance with the allocation of profits principle, this loss is excluded when calculating the result on which the transfer to the Treasury is based.
- The accounting profit was not affected by any gold value effect and for that reason no such adjustment was made.
- A price loss of SEK 859 million was recorded in the revaluation account in the balance sheet as a result of the accounting policies that were to some extent changed in 2004. The General Council has included this loss in its calculation of the allocation of profits in accordance with the allocation of profits principle.

The General Council proposes as stated below a transfer to the Treasury of SEK 6 200 million.

As the proposed transfer is higher than the accounting profit, it is proposed that SEK 6 540 million be transferred from the contingency fund and SEK 888 million be transferred to the balancing account, in accordance with the allocation of profits principle. To avoid making a transfer of 10 per cent of the average adjusted profit to the contingency fund by means of a transfer from the balancing fund, this transfer is limited in accordance with the allocation of profits principle to an amount equivalent to the accounting profit for 2010. The calculation on which the proposed allocation of profit is based can be found in the table on page 12.

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

Profit for 2010 before appropriations amounts to SEK 548 million, and the General Council decided on 11 February 2011 to propose the following allocation of the Riksbank's profit:

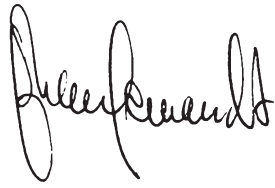
SEK million	
Transfer to the Treasury	6 200
Transfer from the Riksbank's contingency fund	6 540
Transfer to the Riksbank's balancing fund	888

The General Council also proposes that 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.

## ■ Transfer calculation of the Riksbank's profits 2010

SEK million	
<b>1 CALCULATION OF THE RIKSBANK'S TRANSFER TO THE TREASURY</b>	
<b>Adjustment of the year's profit</b>	
Net interest income	5 582
Foreign exchange rate loss	-7 088
Gold value effect	-
Other expenses and income	2 054
<b>Profit for 2010</b>	<b>548</b>
Less: Foreign exchange rate loss	7 088
Plus: Price loss recorded on the balance sheet	-859
<b>Adjusted profit for 2010</b>	<b>6 777</b>
<b>Calculation of average adjusted profit</b>	
Adjusted profit for 2006	2 586
Adjusted profit for 2007	7 061
Adjusted profit for 2008	18 318
Adjusted profit for 2009	4 192
Adjusted profit for 2010	6 777
<b>Total adjusted profit for the past five years</b>	<b>38 934</b>
<b>Average adjusted profit for the last five years</b>	<b>7 787</b>
<b>Calculation of transfer amount</b>	
80 % of the average adjusted profit	6 229
Rounding off to SEK 100 millions	-29
<b>Transfer 2010</b>	<b>6 200</b>
<b>2 CALCULATION OF TRANSFER FROM THE RIKSBANK'S CONTINGENCY FUND</b>	
<b>Transfer from the Riksbank's contingency fund</b>	
Foreign exchange rate loss	-7 088
10 % of the average adjusted profit reduced to profit for the year	548
<b>Total</b>	<b>-6 540</b>
<b>3 CALCULATION OF TRANSFER TO THE RIKSBANK'S BALANCING FUND</b>	
<b>Transfer to the Riksbank's balancing fund</b>	
10 % of the average adjusted profit	779
10 % of the average adjusted profit reduced by profit for the year	231
Price loss recorded on the balance sheet	859
Rounding off of transfer	29
Adjusted profit less average profit	-1 010
<b>Total</b>	<b>888</b>

*Stockholm, 11 February 2011*

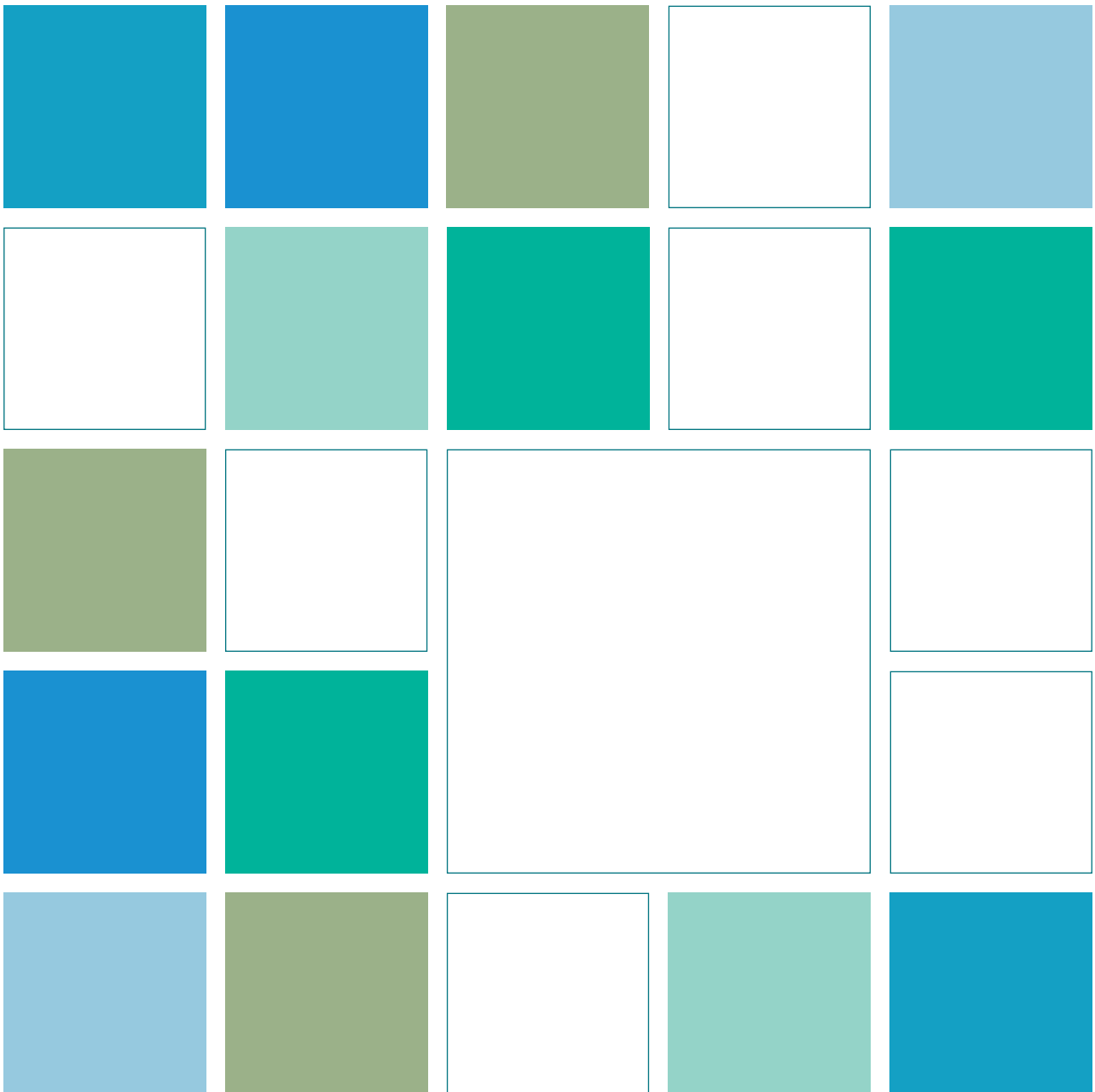


Johan Gernandt  
Chairman





# Annual report for Sveriges Riksbank 2010



## ■ Statement by the Governor

We now have behind us couple of dramatic years since the international financial turmoil erupted into an acute global financial crisis in the autumn of 2008. Looking back on these years, it seems increasingly clear that, despite everything, the Swedish economy has coped fairly well with the crisis. Although production fell more in Sweden than in certain other countries, the recovery has been much quicker. The Swedish banks, which were impacted by the confidence crisis that swept across the financial system worldwide, can now obtain funding on the market without problems. For the Riksbank, this means that during 2010 we were able to wind up extraordinary lending and take the first steps to normalise monetary policy.

An important explanation of why we have coped relatively well is that in the wake of the Swedish crisis in the early 1990s we managed to form a solid framework for both monetary policy and fiscal policy, a framework that laid the foundation for long-term stability. Together with the tight rules for fiscal policy, the monetary policy framework has in many ways acted as a “shock absorber” in this global crisis.

Economic agents have been able to assume that inflation will be fairly stable and that public finances will remain under control in the years ahead. In that environment we were able to stimulate the economy vigorously without anyone questioning the credibility of the inflation target or the sustainability of public finances. Our banking system also managed better than banking systems in many other places, partly due to the lessons learned from our own banking crisis almost twenty years ago.

### Recovery in the economy and stabilisation in the markets

The situation today looks far more stable in Sweden than in several other countries. Although the problems of public finances in some euro countries still remain a cause for concern, and it is uncertain what consequences a tighter fiscal policy may have on growth in these countries, the world economy continues to improve and demand for Swedish products is growing. Swedish households are optimistic, our central government budget is in good order and our central government debt is relatively small.

Uncertainty concerning the state of public finances in several other countries in the spring caused many investors to be more careful in their investments.

Unease in the financial markets was considerably dampened, however, in the latter part of the year, only to increase again at the year-end. Demand for the various loans we offered the banks since the financial crisis was at its worst continued to fall steadily, and from autumn onwards there was no interest in our variable-rate loans. This means that the banks are now managing their short-term funding entirely in the private loan market. The overnight loan market, which handles interbank overnight loans, is also functioning normally now.

### Normalisation of the Riksbank's work

In the second half of the year we could therefore start a return to a more “normal” way of working. We took the first steps to normalise monetary policy and raised the repo rate on four occasions, to 1.25 per cent at the year-end, on the basis of the assessment that monetary policy needs to be gradually less expansive to stabilise inflation around the 2 per cent target and at the same time allow us to achieve stable growth in the real economy. In addition, we decided to allow all remaining fixed-rate loans with long maturities to mature without replacing them with new loans. This means that the Riksbank has now moved away from what are usually called extraordinary measures.

Our activities were, however, still characterised by issues raised by the financial crisis. We continued to work very actively on reforming regulatory codes and improving supervision of the financial area, both at home and internationally, so that the risk of new crises can be minimised. For example, we were involved in framing and deciding on the new international capital and liquidity requirements in the banking sector, the Basel III rules. We also took part in building up the new structure for enhanced financial oversight and supervision in the EU. Together with the General Council of the Riksbank we also submitted a proposal to the Riksdag to set up one or more inquiries to review the Swedish financial regulatory framework. In the proposal we emphasised in particular that the rules need to be more coherent and that the division of roles between authorities needs clarification. The Riksdag approved our proposals for the most part, and we are now waiting for the inquiries to be set in motion.

The financial crisis has made it clear how closely the Riksbank's activities are linked and how important it is to have extensive collaboration between our different departments. We therefore continued to work interdepartmentally, not least to develop new analyses, methods and tools that we can use jointly in the future. This collaboration includes special initiatives, such as an inquiry on risks in the Swedish housing market and a review of the operational framework for implementation of monetary policy. But it is also a matter of collaboration on day-to-day activities, for example when we develop investment strategies for managing the Riksbank's assets, extend





*Stefan Ingves, the Governor  
of the Riksbank*

our statistical databases or strengthen our internal risk management. The link between our activities was also noted by the Riksdag Committee on Finance, which during the year started a new evaluation of the Riksbank's work. This time the Committee is examining the results of both our monetary policy and our work on financial stability.

#### **Openness and clarity in the wake of the financial crisis**

The financial crisis has also confirmed how important it is that we continue to be open and clear in communicating the foundations and results of our work. An evaluation within the framework of FSPOS, which is a private-public sector cooperation body for the financial sector, showed that while the crisis was going on we successfully informed the market and the general public of the course of events and the measures we had taken. Our warnings about the risks that had built up before the acute phase of the crisis were, however, not paid as much heed. To enable us to uphold confidence in our assessments and working methods and thereby succeed better in our statutory tasks, we need to continually communicate how we work and why, and do this as clearly as possible.

During the year we clarified the foundations of our work on financial stability in the brochure "The Riksbank and financial stability". The brochure also contains an overall description of how we produce our analyses and assessments of stability in the financial system in Sweden. We also updated the description of the Riksbank's monetary policy strategy in the brochure "Monetary policy in Sweden". In connection with this, we decided to remove the tolerance interval when defining the inflation target, since we considered that the interval had become obsolete.

We also reviewed and clarified our role in RIX, which is the central system for payments between banks and other agents in the financial system. The Riksbank will continue to support and safeguard the financial infrastructure by providing a central payment system so as to contribute to an efficient payment mechanism, as well as retaining our competence in crisis management.

#### **New challenges for the future**

While the financial crisis was ebbing away, we were working intensively on modernising and streamlining our cash management in Sweden. We withdrew the 50-öre coin, and continued to prepare the design of new banknotes and coins in accordance with the Riksdag's decision that the Riksbank may introduce a 200-krona banknote and a 2-krona coin. We also continued the work ahead of next year's construction start of a new cash management office.

After the turn of the year 2010/11 we also made a decision to contract out the operation and support of some of our IT systems and computers. As a result of the decision we will now actively work to design future IT activities at the Riksbank to ensure the right skills provision, enabling us to stay updated in an environment of rapid technical development.

These matters will take up a lot of space in the activities of the Riksbank in the coming years. But even if it seems as if, for Sweden's part, we can put the most acute chapters of the crisis behind us, our activities will also be marked by the financial crisis for some time yet. Consequently, it is important for us to make use of everything we learned from the financial crisis and develop our working methods within the Riksbank.

It is also important that we continue to uphold the strong commitment and high level of competence of our employees. It is thanks to their work our organisation has been able to operate as efficiently and with such high quality as it has in the recent years of crisis.

I would like to thank all employees here for their valuable contributions in 2010. Together we will also succeed in managing the challenges we have ahead of us.

Stefan Ingves

## ■ The year at a glance

During 2010, the Riksbank wound up the extraordinary measures adopted in connection with the financial crisis and took the first steps towards a less expansive monetary policy. The following economic outcomes, measures and events had a great impact on the Riksbank's activities:

- The world economy recovered during the year. In Sweden growth was high and employment increased. The situation in the global financial markets improved successively during the year, but concern over public finances in Europe meant that access to liquidity deteriorated temporarily in the markets in May and June, as well as in November and December.
- The Riksbank left the repo rate unchanged at 0.25 per cent until the monetary policy meeting in June. The repo rate was then raised by 0.25 percentage points and three more increases followed. At the end of the year the repo rate was 1.25 per cent. The repo rate path was raised slightly in the short term in February but lowered slightly in the longer term on three occasions during the year.
- Inflation, measured as the change in the consumer price index (CPI), averaged 1.3 per cent during the year. The rate of inflation increased from 0.6 per cent in January to 2.3 per cent in December. Underlying inflation, measured as CPI with a fixed mortgage rate (CPIF), was 2.1 per cent on average during the year. According to the Riksbank's assessment in December, total output (measured as GDP) in Sweden increased by 5.3 per cent in 2010, while average unemployment was 8.4 per cent.
- As the Swedish banks were better able to obtain market funding the Riksbank wound up the extraordinary measures adopted in 2008 and 2009 to help the banks gain access to liquidity, facilitate the functioning of the market and strengthen the impact of monetary policy on the economy. The winding up was made easier by the banks taking active measures to improve their funding and strengthen their capital situation.
- The Riksbank participated actively in the extensive work of reforming national and international regulatory codes and improving supervision in the financial area to minimise the risk of new financial crises. Moreover, the General Council of the Riksbank and the Executive Board of the Riksbank proposed in a joint submission to the Riksdag that one or several inquiries should be set up to review the Swedish regulatory framework in the financial sector.



*Mikael Nordén, Petra Nilsson and Emma Bäcke*

- The Riksbank appointed an internal inquiry on risks in the Swedish housing market. The inquiry is to make a coherent analysis of the housing market in Sweden in the light of the recent financial crisis and house price trends.
- The work of modernising the Swedish banknote and coin series continued. In March the Riksbank proposed in a submission to the Riksdag that a new banknote and coin series should be introduced. The 50-öre coin was taken out of circulation at the end of September.

- During the year the Riksbank's publications included three Monetary Policy Reports, three Monetary Policy Updates, one report entitled "Material for Assessing Monetary Policy", two Financial Stability Reports and an annual publication about the Swedish financial market. The publication "Monetary Policy in Sweden" was updated. The Riksbank also published a brochure, "The Riksbank and financial stability", which describes both the foundations of the financial stability work and the methods of analysing and assessing the state of the financial system.
- In connection with an update of the description of the Riksbank's monetary policy objective and strategy in the publication "Monetary policy in Sweden" the Riksbank removed the tolerance interval when defining the inflation target since the interval had become obsolete.
- The Riksbank's profit for the year was SEK 0.5 billion. The profit was mainly affected by unrealised exchange rate losses of SEK 7.7 billion, which meant that the foreign currency holding was written down. In addition, interest income decreased by SEK 3.3 billion as a result of the Riksbank winding up extraordinary lending to the Swedish banks during the year. Unlike previous years, the Riksbank sold no gold in 2010, which also contributed to a lower profit compared with 2009.

### The year in figures

The Riksbank's profit for 2010 is SEK 0.5 billion, which is a decrease of SEK 13.7 billion compared with 2009. The decrease is largely due to unrealised exchange rate losses of SEK 7.7 billion, which caused the foreign currency holding to be written down. In addition, in 2010 most of the extraordinary loans issued as a consequence of the financial crisis matured without the Riksbank replacing them with new loans. This meant that interest income decreased by SEK 3.3 billion. Unlike previous years, the Riksbank sold no gold in 2010, which also contributed to a lower profit compared with 2009.

The market value of the gold and foreign currency reserves decreased in 2010 from SEK 313 billion to SEK 301 billion, which is mainly because the value of the Riksbank's bond holdings was written down as a result of a strengthening of the Swedish krona.

The value of the Riksbank's assets fell from SEK 709 billion to SEK 327 billion as the Riksbank wound up the extraordinary lending to the Swedish banks during the year.

### Key figures

	2008	2009	2010
<b>At year-end</b>			
Profit for the year (SEK billion)	11.2	14.2	0.5
Gold and foreign currency reserves (SEK billion)	220	313	301
Total assets (SEK billion)	700	709	327
Average number of employees (full-year equivalents)	348	351	339
<b>On average</b>			
Repo rate (per cent)	2.00	0.25	1.25
Short-term interest rate (three-month T-bills, per cent)	1.36	0.20	1.32
Long-term interest rate (ten-year government bonds, per cent)	2.43	3.30	3.28
<b>On average</b>			
GDP (percentage change)	-0.6	-5.3	5.5
Unemployment (per cent)	6.2	8.3	8.4
Inflation, CPI (percentage change)	3.4	-0.3	1.3
Inflation, CPIF (percentage change)	2.7	1.9	2.1

Note: The table presents the actual outcome for all items with the exception of GDP and unemployment data for 2010, which are stated according to the Riksbank's forecast from December 2010. CPIF is estimated as CPI with a fixed mortgage rate.

## ■ Maintaining the value of money – price stability

The Swedish economy performed well in 2010, and conditions in the financial markets improved. In the second half of the year the Riksbank raised the repo rate from 0.25 per cent to 1.25 per cent. The extraordinary measures taken in connection with the financial crisis were wound up during the year. Average inflation, measured as the annual change in the CPI, was 1.3 per cent during the year. The annual average for the CPIF, where mortgage rates are held constant, was 2.1 per cent. According to the Riksbank's forecast in December, GDP increased by 5.5 per cent during the year and the situation in the labour market improved

Under the Sveriges Riksbank Act the Riksbank shall maintain price stability, which means that inflation should be low and stable. The Riksbank has specified the target for inflation as 2 per cent per year, measured as the annual percentage change in the Consumer Price Index (CPI).

At the same time as monetary policy is aimed at attaining the inflation target, it is also to support the objectives of general economic policy with a view to achieving sustainable growth and high employment. The Riksbank conducts what is generally referred to as flexible inflation targeting. At the time of each monetary policy decision the Executive Board decides on the repo rate level until the next monetary policy meeting and makes an assessment of how the repo rate needs to develop in the next few years for monetary policy to be well-balanced. A well-balanced monetary policy is normally a question of finding an appropriate balance between stabilising inflation around the inflation target and stabilising the real economy. This does not mean that the Riksbank neglects the fact that the inflation target is the overriding objective. 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 that way other interest rates in the economy are also affected and by extension economic activity and inflation.

It normally takes some time before the Riksbank's changes in the repo rate have a full effect on the

economy. A common estimate is that it takes up to a couple of years before the main impact of an interest rate change is felt on production and inflation. Consequently, it is important that the Executive Board of the Riksbank looks ahead when making repo rate decisions, which means that monetary policy must be based on forecasts.

### The Riksbank's monetary policy decision-making processes

Economic reality is complex. In its forecasting the Riksbank uses various models that are based on historically observed correlations. The models are of course simplifications of reality but are necessary to achieve consistent forecasts. The model results are then combined with assessments made by both experts in various fields and by the members of the Executive Board.

The Executive Board holds six ordinary monetary policy meetings per year, when it decides on the repo rate. In connection with three of these, a comprehensive Monetary Policy Report is published that contains detailed forecasts for the economy and inflation as well as assessments of the repo rate in the period ahead. After the three other meetings a Monetary Policy Update is published, which contains forecasts for the same variables as in the Monetary Policy Report but gives less detailed descriptions of the forecasts. After every monetary policy meeting, the Riksbank publishes a press release and holds a press conference. The press release states whether any member of the Executive Board has entered a reservation against the majority



The Riksdag has decided that the 50-öre coin will cease to be legal tender after 30 September 2010. This is part of a major review of Sweden's notes and coins. The aim is to make management of banknotes and coins more effective and to reduce their environmental impact. New banknotes will also be designed to be more difficult to counterfeit.

assessment of the economic situation and against the decisions on the repo rate and repo rate path, which is the development of the repo rate in the next few years. About two weeks after every monetary policy meeting, the Riksbank publishes the minutes of the meeting.

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 material for assessing monetary policy compiled for the Riksdag Committee on Finance. The second report consists of the third Monetary Policy Report for the year. The Governor of the Riksbank also visits the Riksdag Committee on Finance to answer questions about monetary policy.

### Activities in 2010

During the year a normalisation of monetary policy was started. The repo rate was raised on four occasions during the second half of the year, from 0.25 per cent to 1.25 per cent. The Riksbank also wound up the extraordinary measures taken in 2008 and 2009. The Riksbank ceased to offer the banks loans at longer maturities, since the banks' ability to obtain financing had improved. The Riksbank also set up an inquiry to examine the relationship between the Swedish housing market and the Riksbank's tasks and objectives. In 2010 an updated version of "Monetary Policy in Sweden" was published. At the same time the Executive Board decided to remove the tolerance interval of  $\pm 1$  percentage points when defining the inflation target.

#### Winding up of extraordinary measures

The turbulence on the financial markets in 2008 and 2009 entailed difficulties for monetary policy. Increased risk premiums meant that changes in the repo rate had less effect than normal on the market rates encountered by households and companies. The major cuts in the repo rate also meant that the repo rate level was approaching zero, which restricted the Riksbank's ability to use drastic interest rate cuts if necessary. The Riksbank, like many other central banks, therefore took extraordinary measures to improve the functioning of the market and thereby also achieve a better monetary policy impact.

The Riksbank's extraordinary measures had three overall purposes. They were taken to ensure liquidity in the Swedish financial system and to facilitate the functioning of the financial markets. They also aimed at strengthening the impact of monetary policy in an economy characterised by disruptions in these markets (see for example the Riksbank's website for a complete account of these measures).

One of the extraordinary measures was to offer the banks loans with longer maturities, at both variable and fixed interest rates. From the perspective of monetary policy the purpose of this was to reduce the abnormally large difference between the repo rate and market rates so that the low repo rate would have a greater impact on the interest rates encoun-

tered by households and companies. The Riksbank also indicated clearly that the repo rate would remain at a low level for a long period to support economic development.

In winter 2009–2010 conditions on the credit markets improved, which was reflected in the banks' easier access to long-term funding and funding at a lower cost. In 2010 the Riksbank therefore phased out the loans with longer maturities. In February the Riksbank ceased to offer loans at twelve months maturity, and in April the three-month and six-month loans were discontinued.

In that the Riksbank's three one-year fixed interest loans to the banks, totalling SEK 295.3 billion, matured during the year the Riksbank has by and large wound up the extraordinary measures taken during the financial crisis (one loan for a smaller amount, however, will mature at the beginning of January 2011). This means that the banks have had to start managing their short-term funding in the private loan market. The banks have thereby resumed responsibility for the overnight market, which handles overnight loans between banks.

When the fixed-rate loans matured, the Riksbank offered the banks loans with a maturity of 28 days, which would constitute an underlying insurance against the situation in the markets again becoming turbulent. However, the banks' demand for these loans ceased already in late summer.

In late June the Executive Board of the Riksbank decided to raise the repo rate from 0.25 to 0.50 per cent. The repo rate had then been at the same low level for a year, which the Riksbank had also previously indicated would be the case. Hence the first repo rate increase was in line with the forecasts published by the Riksbank since summer 2009.

#### Inquiry on risks in the Swedish housing market

In February the Executive Board of the Riksbank decided to set up an inquiry on risks in the Swedish housing market. The Inquiry is a joint project between the Monetary Policy Department and the Financial Stability Department. It is aimed at analysing the relationship between the housing market and the Riksbank's tasks and objectives (see further description in the section "A safe and efficient payment mechanism"). The Executive Board considered that a more coherent analysis of the Swedish housing market should be made, since earlier analyses that had been compiled in various contexts by authorities and individual researchers had often focused on specific issues.

From a monetary policy perspective the Inquiry aims to examine the role monetary policy has played for development in the Swedish housing market and what approach central banks should take to asset prices. It is also to analyse the role that monetary policy can and should play in addressing undesired developments in credit stocks and property prices and how the economy and monetary policy can be affected if house prices fall.

### Update of the publication “Monetary Policy in Sweden”

During the year the Riksbank published an updated version of “Monetary Policy in Sweden”, which describes the Riksbank’s monetary policy objective and strategy. This document was first published in 2006 and has since then been updated on a couple of occasions. The main purpose of the latest update was to make the publication more instructive and ensure that the text describes as well as possible the framework on which monetary policy is based.

As part of this update the Executive Board decided to remove the tolerance interval from the specification of the inflation target. The inflation target was previously stated to be that the annual change in the consumer price index (CPI) was to be 2 per cent with a tolerance interval of  $\pm 1$  percentage point.

The reason for removing the interval now was that it had become obsolete. The idea of the interval was to make it clear that deviations from the inflation target were probable, and that the Riksbank’s aim is to try to limit these deviations. Today there is, however, considerable understanding for the fact that monetary policy is conducted under uncertainty and that inflation commonly deviates from the target. Inflation can thus from time to time be outside of the tolerance interval without threatening the credibility of the inflation target. In addition, for a long period the Riksbank has analysed and explained all deviations from the inflation target very carefully in its Monetary Policy Reports and Updates – regardless of whether the deviation is outside or inside the tolerance interval. The decision to remove the tolerance interval will thus have no consequences for the inflation target as such, or for the way in which monetary policy is conducted and communicated by the Riksbank.

### Monetary policy decisions in 2010

Until the end of June 2010 the Riksbank left the repo rate unchanged at 0.25 per cent, a level reached after the cut in July 2009. The interest rate path was adjusted upwards in the short term in February 2010 – an increase in the repo rate was then expected from the summer or early autumn. The forecast for the repo rate in the long term was, however, adjusted downwards.

In the second half of the year the Riksbank began a normalisation of monetary policy. The repo rate was raised by 0.25 percentage points on four occasions, but the interest rate path was adjusted downwards in the long term on two occasions. At the end of the year the repo rate was 1.25 per cent. The increases in the repo rate that were decided at the monetary policy meetings in June, September, October and December were motivated by the Executive Board by the need to stabilise inflation close to the target of 2 per cent and at the same time achieve stable growth in the real economy. Moreover, the Executive Board pointed out that household debt had increased substantially in recent years. A situation where debt is increasing considerably faster than income for a long period of time implies a risk of imbalances building up in the economy.

Normalisation of monetary policy also included the maturing of the extraordinary fixed rate loans during the year without the Riksbank replacing them with new loans at low and fixed rates. This was expected to mean that monetary policy would gradually become less expansive, as a return to ordinary market funding by the banks would mean increasing market rates. The Executive Board also took this into account when assessing an appropriate monetary policy for the year.

#### *The repo rate was left unchanged in February*

The signs of a recovery in the economy became increasingly clear at the beginning of 2010 – there was growth in the rest of the world and outcomes for employment and inflation were higher than expected. The functioning of the financial markets also continued to improve. The overall picture was that the upturn in the economy was resting on firmer ground.

The recovery started in Asia in 2009 now included large parts of the world. The strong growth in Asia also seemed to be persisting. Moreover, the American economy had grown faster than expected at the end of 2009, and several factors indicated that it would continue to recover. The downturn in employment had been slowed considerably, the policy rate was record low and rising housing prices and share prices meant that the American household wealth was growing. World trade continued to rise after having fallen drastically in the initial phase of the financial

### Monetary policy decisions in 2010

**10 February** The repo rate was left unchanged at 0.25 per cent. The interest rate path was adjusted upwards in the short term. The forecast for the repo rate in the long term was adjusted downwards somewhat.

**19 April** The repo rate was left unchanged at 0.25 per cent. The forecast for the repo rate path was also left unchanged.

**30 June** The repo rate was raised by 0.25 percentage points to 0.5 per cent. The interest rate path was adjusted downwards in the long term.

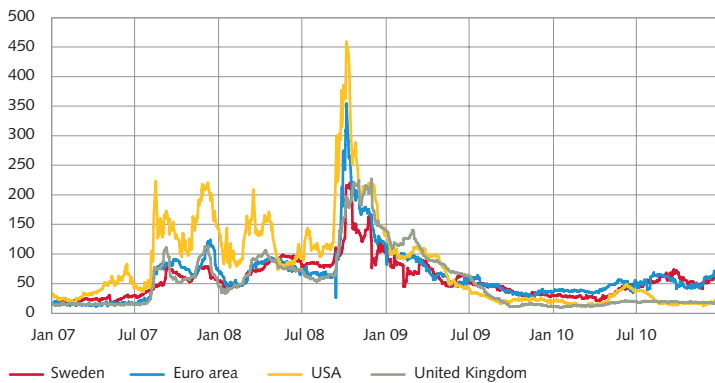
**1 September** The repo rate was raised by 0.25 percentage points to 0.75 per cent. The forecast for the repo rate path was left unchanged.

**25 October** The repo rate was raised by 0.25 percentage points to 1 per cent. The interest rate path was adjusted downwards in the long term.

**14 December** The repo rate was raised by 0.25 percentage points to 1.25 per cent. The forecast for the repo rate path was left by and large left unchanged.

Chart 1

Difference between interbank rates and government bond rates (TED spread), basis points

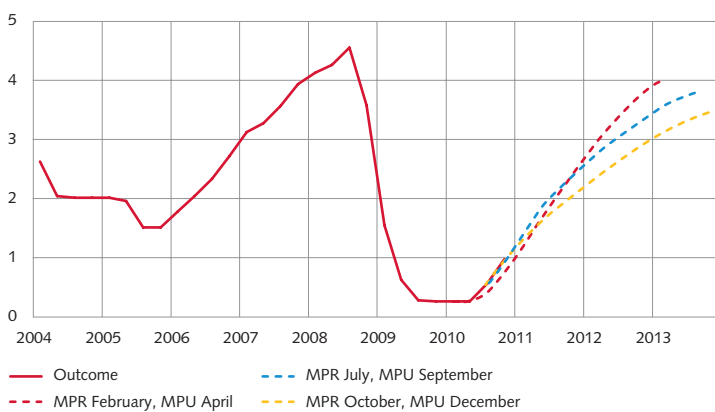


Note: The spread is calculated as the difference between the three-month interbank rate and three-month treasury bill.

Sources: Reuters EcoWin and the Riksbank.

Chart 2

Repo rate and repo rate forecasts in 2010, per cent



Note: MPR denotes Monetary Policy Report and MPU denotes Monetary Policy Update. The repo rate forecasts of February and April coincide, so they are shown in the figure using a shared broken line. The July and September repo rate forecasts, as well as those made in October and December, are so close to each other that they too are illustrated using a shared broken line.

Source: The Riksbank.

crisis. But central banks and governments were still conducting a very expansionary economic policy, and it was uncertain what would happen when their expansive measures were at last withdrawn.

The situation in the financial markets was no longer judged to be an obstacle to the economic upturn. Various risk premiums on the interbank market had fallen, for example. The TED-spread, which shows the difference between the interbank rate and the interest on a treasury bill, was down at the same levels as before the crisis (see Chart 1). Firms' abilities to obtain market funding had also improved.

In Sweden the growth prospects were about the same as in the Riksbank's previous assessment in December 2009, but the labour market did not seem to be as weak as previously feared. The statistics showed that employment was higher than expected.

Household consumption had been stimulated by low interest rates and tax reductions, which kept retail sales up. However, export-oriented industry was lagging behind. The Riksbank nevertheless estimated that international demand for Swedish products and hence exports would rise as the economy in the rest of the world improved. The assessment was that domestic demand would continue to be strong. High household savings at the outset, as well as the fact that there was little need for fiscal tightening later on, indicated that consumption could be maintained. Relatively strong growth in GDP was therefore expected over the next few years.

Despite low resource utilisation, inflation had risen to an unexpected extent compared with the forecast of December 2009, and the underlying inflation was high at the outset. CPI inflation was 0.9 per cent in December 2009, while underlying inflation measured as CPIF (CPI with a fixed interest rate) was 2.7 per cent. However, underlying inflation was expected to fall in 2010 in pace with diminishing pay increases, rising productivity and a stronger krona.

The Executive Board assessed that monetary policy needed to continue to be expansive in order to achieve the target of 2 per cent inflation and at that same time support the recovery in the economy. The Executive Board consequently decided to leave the repo rate unchanged for a further period. After that, according to the forecast the repo rate would be raised from summer or autumn 2010, which was somewhat earlier compared with the previous assessment. This was due to somewhat stronger performance in the economy and better functioning financial markets going forward. At the same time the interest rate path was adjusted down somewhat in the long term (see Chart 2).

Deputy Governor Lars E.O. Svensson entered a reservation against the decision and advocated cutting the repo rate to 0 per cent and thereafter a repo rate path 0.25 per cent below in the path of the main scenario through the fourth quarter of 2010. He maintained that such a repo rate path would result in a better outcome for both inflation and resource utilisation, with both higher resource utilisation and CPIF inflation closer to the target. According to Mr Svensson, such a repo rate path would not cause any problems for the functioning of the financial markets or for financial stability, especially since house prices and mortgages in his view did not entail a stability problem and should not affect monetary policy.

#### *The repo rate was left unchanged in April as well*

After the repo rate decision in February the economy in the rest of the world continued to improve and world trade increased. Progress was, however, uneven and there were great differences between regions. Asia still accounted for a large part of the increase in demand. The recovery continued to receive support through extensive economic policy measures by governments and central banks around the world. The measures stimulated recovery but at the same time entailed growing budget deficits in several countries.

For individual countries, such as Greece, the fiscal problems were very great, and there was uncertainty as regards some countries' credit ratings. While the problems had not spread to the global financial markets, they nevertheless weighed down economic developments in the euro area and created uncertainty about the future.

In Sweden, new statistics showed that GDP had been surprisingly weak at the end of 2009. Despite this, the Riksbank did not change its assessment that the Swedish economy was continuing to recover. The picture was confirmed by the fact that incoming orders had risen, which was expected to give a boost to exports. At the same time the Riksbank considered that the low interest rates and expansive fiscal policy would contribute to strong domestic demand. In addition the upturn in employment had begun and unemployment had stopped rising, which indicated an upturn in the labour market. Consequently, GDP growth in the first quarter of 2010 was expected to be stronger than had been stated in earlier assessments. The GDP level for 2010 as a whole was, however, estimated to be considerably lower than in the previous assessment due to the unexpectedly weak close to 2009.

A stronger exchange rate, faster productivity development and moderate pay rises would, according to the Riksbank's forecast, contribute to relatively low inflationary pressure during the forecast period. CPI inflation, however, was expected to rise fast, since households' interest costs would increase in pace with future increases in the repo rate. CPIF inflation, which is not directly influenced by changes in household mortgage rates, had risen, but that rise was deemed to be temporary. The CPIF-inflation was expected to fall back during the year and then to rise and to be almost 2 per cent at the end of 2012.

The Executive Board decided to leave both the repo rate and the interest rate path unchanged in April. Given that the financial markets were more stable and the recovery in the economy was continuing, the Executive Board considered that it was appropriate to successively return to a more normal monetary policy. The Executive Board decided that the repo rate would start to be raised from the summer or early autumn, which was consistent with the February assessment.

At the meeting, Deputy Governor Lars E.O. Svensson entered a reservation against the repo rate path and advocated a repo rate path with a repo rate of 0.25 per cent through the fourth quarter of 2010, and then a gradual return to the repo rate path in the main scenario. According to Mr Svensson, such a repo rate path would result in about the same effects as the lower repo rate path that he previously advocated, that is, a better outcome for both resource utilisation and inflation, with both higher resource utilisation and CPIF inflation closer to target.



*At the end of June the repo rate was raised to 0.5 per cent*

*Ulf Söderström,  
Ella Nyman-Siegel and  
Carl Andreas Claussen*

The world economy continued to recover during the spring. In Asia and the United States economic activity strengthened, while growth in the euro was slower due in part to the concern over public finances. The outlook for Sweden looked bright, however, and GDP growth was unexpectedly strong.

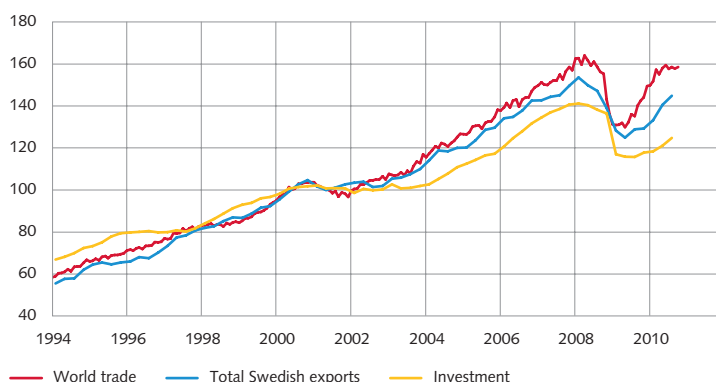
During the spring, the financial markets were characterised by concern over increasing central government debt and large budget deficits, primarily in the southern European euro countries. It was uncertain how great the exposures of the European banking sector were to highly indebted countries and how great the risk of hidden losses was. This contributed to increased nervousness and distrust in the financial markets. The unease accelerated when Greece encountered difficulties in borrowing on the international bond market. In early May, Greece was therefore forced to accept international assistance from the EU and the International Monetary Fund (IMF). Other countries in the euro area also needed to implement extensive budget tightening measures to avoid a considerable increase in central government debt. These measures were expected to dampen GDP growth in the euro area and thereby also keep GDP growth and inflation down in Sweden in the long term.

At the same time Asia continued to develop strongly and was expected to drive the global recovery in the future too. The outlook for the American economy was also positive, and several factors indicated continued recovery – for example the labour market seemed to have stabilised, consumption increased and corporate



Chart 3

World trade, Swedish exports and investments, index 2000 = 100, seasonally adjusted data



Sources: Netherlands Bureau for Economic Policy Analysis and Statistics Sweden.

profits improved. At the same time it could be noted that growth in the USA was mainly due to strong economic policy stimulation from the federal government.

In Sweden the statistics showed that GDP had increased from quarter to quarter (seasonally adjusted) since the second quarter of 2009. GDP growth in the first quarter of 2010 was stronger than the Riksbank had anticipated in April, and the economy was now recovering on a broad front. Households were increasingly optimistic and consumption was rising. The strong surge in world trade also favoured Swedish exports and Swedish investment (see Chart 3). Swedish exports had increased from quarter to quarter since the third quarter of 2009 and in addition the outcome for the first quarter of 2010 was surprisingly strong. The forecast of continued increase in exports was also considered to mean that the Swedish economy's division into two parts would decrease – the economic upturn in the Swedish economy would now be driven by both strong domestic demand and increased demand from the rest of the world for Swedish goods. In that way the differences between the service sector, which had not been as hard hit by the crisis, and the industrial sector would decrease. Employment had also continued to increase and unemployment had levelled off, which was unexpectedly early, bearing in mind historical relationships and development of GDP, which in the post-war years had never fallen as much on average in one single year as in 2009. The Riksbank forecast that GDP would increase by over 3 per cent per year on average in 2010–2012.

Despite the relatively strong GDP development, inflation was expected to remain quite close to the target during the forecast period. There were plenty of unutilised resources initially. Together with a moderate rate of wage increases, increasing productivity growth and a stronger krona, this meant that infla-

tionary pressure would be kept down despite a strengthening economy. Seen across the forecast period, the Riksbank considered that CPI inflation would be slightly higher than 2 per cent, while CPIF inflation would be slightly lower than 2 per cent. CPIF inflation was estimated to rise in 2012 and be close to 2 per cent at the end of the forecast period.

To attain the inflation target of 2 per cent and at the same time have stable growth in the real economy, the Riksbank's assessment was that it was the appropriate time to begin normalising monetary policy. The interest rate was raised to 0.5 per cent and thereafter was predicted to continue towards more normal levels as the economy recovered. In the slightly longer term the repo rate path was adjusted down as a result of the poorer international economic outlook.

At the meeting, Deputy Governor Karolina Ekholm entered a reservation against the decision to increase the repo rate, in view of the increased uncertainty prevailing due to the fiscal problems in the euro area. According to Ms Ekholm, the relatively low inflationary pressure made it possible to wait before increasing the repo rate, without disregarding the inflation target. She advocated a repo rate path with an unchanged repo rate of 0.25 per cent until September, followed by successive increases in accordance with the profile presented in the Monetary Policy Report.

Deputy Governor Lars E.O. Svensson entered a reservation against the repo rate path and advocated a repo rate path with a repo rate of 0.25 per cent through the fourth quarter of 2010, and then a gradual return to the repo rate path in the main scenario. He maintained that such a repo rate path would result in a better outcome for both resource utilisation and inflation, with both lower unemployment and CPIF inflation closer to the target.

#### *The repo rate was raised to 0.75 per cent in September*

In the summer the world economy continued to recover, but the strength of the recovery was uncertain. There were signs that the recovery in the USA had weakened. For example, statistics for the development of the labour and housing markets indicated a slowdown, and National Accounts statistics showed weaker domestic demand than expected. At the same time fiscal unease in southern Europe continued, though the risk of it causing serious problems for European banks was deemed small. The Swedish economy, on the other hand, continued to perform strongly.

World trade had been rising for some time, increasing both Swedish exports and Swedish investment. Domestic factors also indicated favourable growth in the Swedish economy. Confidence was strong, both among households and firms, and households had good prospects of increasing their consumption. Unlike many European countries, the Swedish government did not need to tighten fiscal policy, thanks to Sweden's strong public finances. The speed of

recovery was also reflected in the fact that for a time employment had been rising and unemployment falling. The labour market also continued to recover faster than expected.

The Riksbank revised the short-term Swedish GDP growth forecast upwards, due to both strong outcomes and indicators. GDP growth was expected to be about 4 per cent in 2010 and then weaken in the following years.

The Riksbank also adjusted up its assessment of labour market developments. Employment was expected to return to the same level as before the crisis already in 2011. At the same time, resource utilisation was expected to continue to be low, but successively climb towards an approximately normal level at the end of the forecast period.

According to the Riksbank's assessment the rising resource utilisation would successively have an impact on inflation during the forecast period. The short-term inflationary pressure was expected to be low due to a stronger krona and falling unit labour costs, but as the labour market situation improved inflationary pressure was expected to increase. According to the forecast, underlying CPIF inflation would continue to fall during the year and then rise to 2 per cent in early 2013. CPI inflation was expected to temporarily overshoot the target of 2 per cent during the forecast period, mainly as a result of the coming repo rate increases. In the longer run, when the repo rate had reached more normal levels, CPI inflation was also forecast to be around 2 per cent.

All in all, the revisions of the forecasts were small. The forecast for the repo rate was unchanged in relation to the June forecast. To attain the inflation target of 2 per cent and, at the same time, have stable growth in the real economy, the Riksbank's assessment was that it was appropriate to continue the normalisation of monetary policy that was initiated in the summer. The repo rate was raised to 0.75 per cent and the repo rate path was held unchanged from June. The low level of resource utilisation at the outset justified keeping the repo rate lower than

normal for some time to come. As resource utilisation increased, the repo rate would gradually be increased to more normal levels.

Deputy Governor Lars E.O. Svensson entered a reservation against the decision to raise the repo rate by 0.25 percentage points and against the repo rate path in the Monetary Policy Update. He advocated a repo rate of 0.5 per cent and a low repo rate path that would then gradually rise to 1.75 per cent at the end of the forecast period. According to Mr Svensson, the higher repo rate path in the main scenario, if becoming credible and incorporated in market expectations, would entail a tightening of actual monetary policy, leading to a substantial increase in market interest rates with longer maturities and considerable strengthening of the krona. This would reduce the already low CPIF inflation and raise the already high level of unemployment during the forecast period.

Deputy Governor Karolina Ekholm entered a reservation against the repo rate path and advocated a flatter repo rate path with a repo rate at the end of the forecast period that would be around one percentage point lower than the adopted repo rate path. She motivated her position mainly on the basis that weaker development in the rest of the world could be expected to reduce growth and inflation later on in Sweden too. A slower increase of the repo rate should therefore bring inflation closer to the inflation target and resource utilisation closer to the level regarded as normal.

*The repo rate was raised by 0.25 percentage points in October and December*

After the monetary policy meeting in September the Swedish economy continued to show strong growth. According to the National Accounts, GDP grew by 4.5 per cent in the second quarter and by almost 7 per cent in the third quarter of 2010, compared with the corresponding quarter in 2009. The upturn was broad and all demand components rose. Confidence indicators and monthly statistics, such as the National Institute of Economic Research Economic Tendency Indicator and production statistics for manufacturing and services, gave clear signals that Swedish GDP would continue to grow



*Until the 16th century the öre was only a measurement of value for calculation in Sweden and not a coin. The first time 1 öre was minted as a coin was in 1522. Coin denominations of 25, 10, 5, 2 and 1 öre have previously existed in Sweden but all of them have become invalid. Now when the 50-öre coin has also become invalid the öre has disappeared entirely as a coin denomination.*

Chart 4

TCW-weighted exchange rate, index, 18.11.1992 = 100



Source: The Riksbank.

rapidly in the coming period. The broad upswing in the Swedish economy also contributed to a rapid increase in employment. The krona also continued to strengthen during the autumn as incoming statistics showed that Sweden's economy had performed strongly in relation to the rest of the world (see Chart 4).

At the same time uncertainty about international developments continued to be great. Growth in emerging economies, including Asia, had been high in the first half of 2010, and the strong performance was expected to continue. Recovery in the USA, however, was expected to take time. Growth prospects in the USA certainly looked better in December than they had in October, but development indicated a continued slow recovery in the American labour market. For the euro area as well, the short-term growth forecast was somewhat higher in December compared with October. However, during the autumn the financial markets were characterised by concern over the sustainability of public finances in highly indebted European countries, and that concern increased towards the end of the year. In both October and December the Riksbank assessed that the major fiscal policy tightening measures to improve public finances would dampen growth in Europe. The slow recovery in these countries was expected to entail moderate inflationary pressure and the forecast for international interest rates was adjusted downwards in October.

## The Riksbank's research in 2010

The aim of the Riksbank's research is to develop models and tools for the analyses that the Executive Board needs to be able to make its decisions. The researchers employed by the Riksbank also work as internal advisors for the analytical work of the bank. The research increases the Riksbank's capacity to meet the challenges that arise in the work of keeping inflation low and stable and safeguarding financial stability.

The Riksbank's research is mainly focused on areas of direct significance to the bank's activities, such as monetary policy, the banking system and financial markets. The activities also include developing methods of analysis.

The results of the Riksbank's research are published in international scientific journals, which guarantees that the quality of the research is evaluated objectively in accordance with international standards. The research results are communicated via presentations at other central banks and

universities, as well as at scientific conferences. The research findings are also summarised in articles in the Riksbank's journal, *Sveriges Riksbank Economic Review*.

During the year the Riksbank's researchers also worked on analyses of current issues, such as the uncertainty bands around the interest rate path and factors that determine house prices. In this context a special mention can be made of the article "The Riksbank's Communication of Macroeconomic Uncertainty", which was published in 2010 in the first issue of the *Sveriges Riksbank Economic Review*. The authors of the article describe there how a central bank can calculate intervals of uncertainty around the published interest rate path.

The aftermath of the financial crisis in the world's economies has raised a number of new questions, for example regarding how the financial system is linked to the real economy and how the labour market functions. The Riksbank's researchers

therefore participate in a European network of central bank researchers that develop economic models that can be used to analyse serious risks in the financial system and their links to the macro economy.

The Riksbank arranged an international research conference during the year; "The labour market and the macro economy". Leading researchers discussed the role of the labour market for macroeconomic development and how links between the labour market and the rest of the economy can be better integrated in the forecast models used by central banks. They also presented research that attempts to analyse the interaction between institutions and frictions in the labour market, exchanged experiences of how these in turn have influenced the labour market's ability to adapt after previous crises and discussed the consequences of this for monetary policy.

Despite the fragmented international picture, the Riksbank estimated that the Swedish economy would continue to perform strongly for the remainder of 2010 and in 2011. Recovery in world trade favoured Swedish exports. A combination of strong public finances, a high level of household saving and optimism among households also created the conditions for continued rising consumption. Investments were also expected to increase fast. In October the Riksbank revised its GDP growth forecast for 2010 and 2011 upwards, and in December the forecast was revised further upwards.

Resource utilisation was considered to have increased as the situation in the labour market improved. Together with the strong growth in the third quarter, this meant that resource utilisation in December was considered to be somewhat higher than was assumed in October. Resource utilisation was expected to increase successively during the forecast period as the economy recovered.

The Executive Board of the Riksbank decided to raise the repo rate by 0.25 percentage points in October to 1.0 per cent and in December to 1.25 per cent. Inflationary pressure in Sweden was low due to the weak international economic climate, low labour costs for Swedish companies and the stronger Swedish krona, but it was expected to increase as the economy became stronger. Consequently, the Executive Board decided, as it had at previous meetings during the year, that the repo rate needed to be gradually raised towards more normal levels. In October, however, the long-term repo rate forecast was adjusted downwards in relation to the September forecast. The Executive Board decided that the repo rate did not need to be raised as much in the coming years in light of the weak international development and the low inflationary pressure in Sweden during the forecast period. The December repo rate forecast was in principle unchanged compared with October.

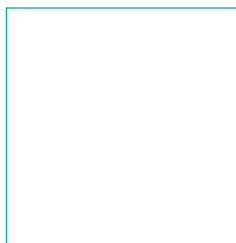
**Table 1**

Comparison between different measures of inflation, annual percentage change

	Annual average		
	2008	2009	2010
CPI	3.4	-0.3	1.3
CPIF	2.7	1.9	2.1
CPIF excluding energy	2.0	2.3	1.7

Sources: Statistics Sweden and the Riksbank.

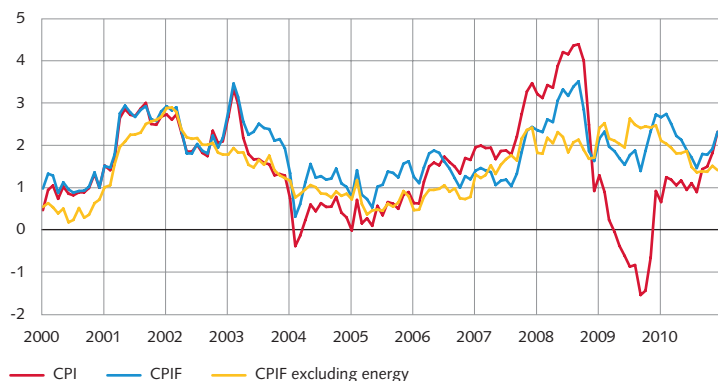
At the monetary policy meetings in October and December Deputy Governor Karolina Ekholm and Deputy Governor Lars E.O. Svensson entered reservations against the decision to raise the repo rate by 0.25 percentage points and against the repo rate path in the Monetary Policy Report and Monetary Policy Update respectively. They advocated an unchanged repo rate at both meetings and a repo rate path that should then gradually rise to 2.7 per cent at the end of the forecast period. They considered that the interest rate path of the main scenario entailed a tighter monetary policy than presented in the Monetary Policy Report and Monetary Policy Update respectively. If the interest rate path became credible, it would lead to a greater strengthening of the krona than in the Report or the Update's forecast and considerably higher long-term market rates than those in force at the time of the forecast. This would reduce inflation and raise unemployment. Ms Ekholm's and Mr Svensson's opinion that the main scenario interest rate path would lead to greater strengthening of the krona than in the forecast was based, among other things, on the understanding that policy rates in other countries would rise more slowly than in the forecast.



After 30 September 2010 it is no longer possible to use a 50-öre coin as payment. Anyone can redeem the coins at banks until 31 March 2011. After that unwanted 50-öre coins can be sent for waste recycling as metal waste.

Chart 5

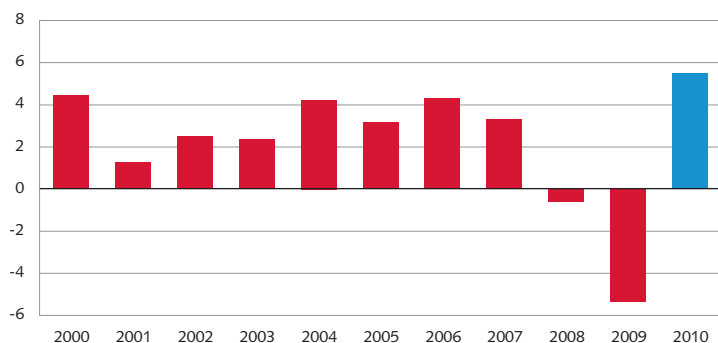
CPI, CPIF and CPIF excluding energy, annual percentage change



Source: Statistics Sweden.

Chart 6

GDP in Sweden, annual percentage change



Note: The blue bar represents the Riksbank's forecast in December 2010.

Sources: Statistics Sweden and the Riksbank.

Chart 7

Unemployment in Sweden, percentage of the labour force, seasonally adjusted data



Note: The broken line represents the Riksbank's forecast in December.

Sources: Statistics Sweden and the Riksbank.

## Follow-up

The Riksbank's monetary policy is evaluated by the Riksdag Committee on Finance. The Riksbank compiles a written report entitled "Material for Assessing Monetary Policy" for this evaluation, which is published after the first Monetary Policy Report of the year. The report for 2010 will be submitted to the Riksdag in March 2011.

## Inflation 2010

From being negative in 2009, CPI inflation rose to about 1 per cent at the end of 2009 and the beginning of 2010, and remained at about that level until the autumn (see Chart 5). The decrease in 2009 was mainly because the substantially reduced repo rate had pushed down mortgage rates. In the first half of 2010 the Riksbank left the repo rate unchanged, which gradually reduced the negative effect of falling mortgage rates on the CPI. After that, mortgage rates started to rise again, which contributed to the increase in the CPI. The increases in the repo rate in the second half of the year contributed to a faster rise in the CPI at the end of the year. Higher energy prices also contributed to the increase.

On average, CPI inflation was 1.3 per cent during the year, which can be compared with  $-0.3$  per cent in 2009 (see Table 1). Using the CPIF measurement, which is CPI with a fixed mortgage rate, underlying inflation was 2.1 per cent in 2010 and very close to the underlying inflation of the year before. The CPIF excluding energy prices increased by 1.7 per cent in 2010.

## Development of the real economy in 2010

In 2010 GDP increased by 5.5 per cent according to the Riksbank's forecast in December. The increase was almost as great as the previous year's fall (see Chart 6). The upturn was broad, with all expenditure components developing strongly. The upturn was mainly due to the recovery of world trade and a stronger international economy, but also to strong development in domestic demand during the year. GDP growth in Sweden was also significantly stronger than in the United States or euro area.

The labour market also developed more strongly than expected. Historically, development on the labour market tends to lag behind GDP growth. Since GDP had fallen so drastically in 2009 most forecasters expected that unemployment would increase substantially in 2010. However, there was a distinct improvement in the labour market during the year and unemployment started to decrease (see Chart 7).

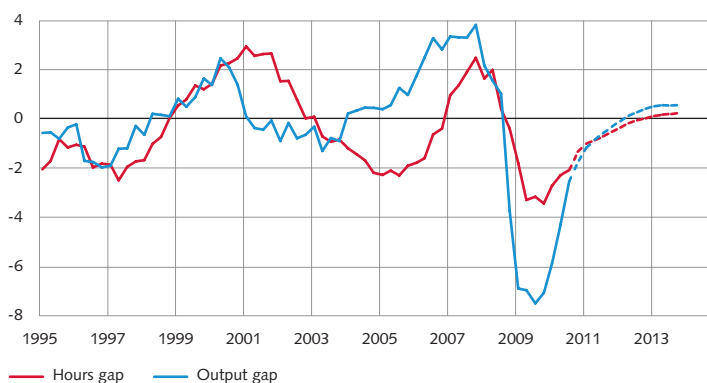
A resource utilisation measurement is often used as an overall measurement of the development of the real economy. However, there is no clear-cut way to measure this, and the Riksbank uses a number of different indicators to assess resource utilisation. Examples of such measurements are the output gap and the hours gap, which measure the percentage

deviations of GDP and hours worked from their respective potential levels (see Chart 8). If the respective measurement is positive, that is if GDP and hours worked are higher than their potential levels, it means that the activity level in the economy is high and that resources in the economy are being used to a greater extent than normal. The opposite applies when the measurements are negative. According to both of these measurements, resource utilisation was lower than normal during the year.

Chart 8 shows that the development in the labour market in 2009 and 2010 was not as weak as at the time of the severe downturn at the beginning of the 1990s, when the hours gap was as great as the output gap.

Chart 8

Output gap and hours gap, percentage deviation from potential level



Note: The output gap refers to the actual GDP deviation from the GDP trend, calculated using a production function approach, which is a measurement introduced by the Riksbank during the year (see the article "The driving force behind trends in the economy can be analysed using a production function" in the Monetary Policy Report of October 2010). The hours gap refers to the difference between the actual number of hours worked and the Riksbank's assessment of the trend for hours worked. The broken lines represent the Riksbank's forecasts in December.

Sources: Statistics Sweden and the Riksbank.

## Statistics

Under the provisions of the Sveriges Riksbank Act the Riksbank shall make public statistical data concerning foreign exchange and credit conditions on a continual basis. The Riksbank is responsible for statistics concerning the balance of payments, the financial markets, turnover on money and bond markets as well as interest rates and foreign currencies.

The statistics on both the financial markets and the balance of payments are produced and published on behalf of the Riksbank by Statistics Sweden (SCB). However, the Riksbank is responsible for the quality, content and development of the statistics.

For the Riksbank access to economic statistics of high quality is a prerequisite for the bank's ability to assess economic development and ultimately to fulfil its mandate. The Riksbank therefore regularly follows the development of economic statistics and during the year held discussions with Statistics Sweden on quality review.

The Riksbank collects and publishes turnover statistics on a daily basis from primary monetary policy counterparties and counterparties in foreign exchange transactions.

In addition interest rates and exchange rates are compiled and published daily on the Riksbank website.

In light of experiences from the financial crisis the Riksbank has taken the initiative of improving statistics concerning securities. In August the Riksbank submitted a proposal to the Riksdag to amend the Sveriges Riksbank Act to entitle the Riksbank to collect data on securities issued. The proposed amendment to the Act would make it possible for the Riksbank to better follow and analyse securities funding at both banks and non-financial firms and thus develop its analysis of stability in the financial system. The Riksbank also completed a preliminary study on the development of a Swedish securities database.

As a first step in creating a comprehensive register of Swedish securities the Riksbank introduced a system for receiving and storing such data from Euroclear concerning Swedish securities issued in Sweden. As of 2011 these data will also be forwarded after processing to the European Central Bank (ECB) Central Securities Database (CSDB).

In October new forms for reporting from monetary financial institutions were introduced to meet an increased need for financial market statistics by several users including the ECB. In connection with this the Riksbank amended the Regulations and General Guidelines on the reporting by institutions of financial market statistics (RBFS 2010:1).

Moreover, in 2010 work continued on adapting statistics to coming changes in the international standard for the balance of payments. The Riksbank is conducting the project in collaboration with Statistics Sweden. The work is also being harmonised in the EU.

The Riksbank also started the work of creating an integrated system of statistics and forecasts to support the Riksbank's policy work based on the Executive Board's investment decision in October 2009. The system is called Data Library and will be brought into operation successively in 2011.

## ■ A safe and efficient payment mechanism

As economic recovery became stronger in 2010 and the financial markets functioned better and better, during the year the Riksbank wound up the extraordinary measures taken in 2008 and 2009 to ensure access to liquidity and provision of credit in Sweden. The Riksbank also participated actively in the extensive work of reforming national and international regulatory codes and improving supervision in the financial area to minimise the risk of new financial crises. The Executive Board also decided that the Riksbank would continue to supply the RIX payment system. The work of modernising Swedish banknotes and coins continued, and the Riksdag decided to amend the Sveriges Riksbank Act to allow the Riksbank to issue two new denominations – a 200-krona banknote and a 2-krona coin.

The Riksbank has the Riksdag's mandate to promote a safe and efficient payment mechanism. As interpreted by the Riksbank, this mandate has broad implications and in practice includes responsibility for stability in the financial system.

The financial system consists of agents (such as banks) and marketplaces where the agents operate, financial markets, infrastructure that enables payments and exchanges of securities and a regulatory code in the form of legislation, regulations and other standards. The basic functions of the system are to mediate payments, convert savings into funding (capital supply) and to manage risk.

The Riksbank's practical work in the context of its mandate includes several different tasks. The Riksbank takes preventive action to reduce the probability of a financial crisis arising, as well as being prepared to manage a crisis if one should nevertheless arise. The Riksbank is also responsible for issuing banknotes and coins. Furthermore, the Riksbank provides a system for intra-bank payments in Swedish kronor, called the RIX system (see Figure 1).

### ■ Financial stability

The Riksbank has chosen to define financial stability as meaning that the financial system can maintain its basic functions and also has resilience to disruptions that threaten these functions.

The Riksbank endeavours to prevent threats to financial stability by regularly following developments in the financial system and in the economy in other respects, as well as informing of, and warning against, risks that are building up. If a financial crisis nevertheless arises, the Riksbank is able to deal with it and can quickly supply money to the financial system if the need arises.

#### The Riksbank and financial stability under normal conditions

An important part of the Riksbank's work with financial stability is to prevent financial crises. The objective is to persuade banks and other agents in the financial markets to observe and deal with the risks that are identified.

The four major banking groups in Sweden are currently a focus of the Riksbank's supervision as they play such a central part in payment mediation and credit supply. The Riksbank also monitors the Swedish and international financial markets as the banks are dependent on these markets to fund their

Figure 1

The Riksbank's activities to promote a safe and efficient payment mechanism

#### Preventive work

- Gathering and analysing information on the financial system and spreading information and knowledge about it
- Regularly analysing and supervising developments in the financial system and the economy as a whole
- Preventing threats to financial stability by informing of, and warning against, risks that are building up
- Influence the financial regulatory framework so that it contributes to stability and efficiency

#### Crisis management

- Manage a financial crisis if one should arise, for example by supplying liquidity to the system in various ways if necessary

#### Operative tasks

- Issuing banknotes and coins
- Providing a central payment system which banks and other agents can use to make large payments

operations and manage their risks. Another important part of the Riksbank's regular analysis is to follow developments among the banks' borrowers, in Sweden and abroad, since loans often constitute a potential source of major losses. In addition the Riksbank monitors the financial infrastructure, starting with the parts that are essential for the efficient functioning of the financial markets and payments by the public.

In its preventive work, the Riksbank has no binding statutory tools to influence financial market participants. Instead, the Riksbank primarily acts (in public and in dialogue with financial system participants) by calling attention to and warning of risks and events that may threaten financial stability. The Riksbank endeavours to be as open, clear and predictable as possible in its financial stability communication.

The Riksbank communicates its views on financial stability in several different ways. For example, twice a year the Riksbank publishes the Financial Stability Report, in which the Executive Board presents its assessment of the major banks' resilience to unexpected events and highlights potential risks to financial stability. In addition, the Riksbank regularly assesses the Swedish financial infrastructure and publishes the results of these assessments annually in separate publications. The Riksbank's assessments are also presented in speeches and articles that are published in various journals. Once a year the Riksbank describes the financial system, its structure and its participants, in the publication *The Swedish Financial Market*.

Moreover, the Riksbank is in a position to influence the framing of laws and regulations that relate to supervision and crisis management by responding to consultation documents and actively participating in the work of a number of international organisations. International cooperation is not least important for continuously adapting and strengthening the forms of coordinated oversight and supervision between national authorities.

### The Riksbank and financial stability in a crisis

The financial system is strongly interlinked, which means that a problem that arises in one bank can quickly spread to other banks. This is because banks often borrow from each other, often lend to the same groups of borrowers and are dependent on the same financial markets. They are also exposed to the same type of disruptions. Increased globalisation means that confidence and liquidity crises affecting banks in other countries can spread to the Swedish banks.

If a financial crisis occurs the Riksbank, Finansinspektionen (the Swedish financial supervisory authority), the Ministry of Finance and the National Debt Office share the responsibility for dealing with the crisis so as to minimise the costs to the national economy. The Riksbank's crisis management can be divided into three main areas: supply of liquidity to the financial system, communication of the Riksbank's assessments and cooperation with authorities in Sweden and abroad.

The Riksbank maintains liquidity in the financial system by ensuring that its participants have access to short-term funding in Swedish kronor. If necessary the Riksbank can also offer loans in other currencies.

The Riksbank can provide liquidity assistance to individual institutions on special terms and conditions. The aim of such assistance is to prevent a situation in which a bank is forced to suspend payments and to prevent the effects of such an event from spreading throughout the system. These special terms and conditions may, for example, entail the Riksbank accepting special forms of collateral other than those that normally apply to the Riksbank's lending. Banking institutions and Swedish companies that fall under the supervision of Finansinspektionen may receive such assistance under exceptional circumstances. One such exceptional circumstance is if the Riksbank believes that the institution concerned is systemically important in the situation prevalent at that time.

In order to be able to manage a crisis effectively, the Riksbank must constantly keep its plans for a crisis organisation up to date. A necessary condition for this is that the Riksbank makes regular stability analyses



Until 2010 there were about 394 million 50-öre coins in circulation in Sweden valued at SEK 197 million. The first 50-öre coin was engraved in 1857. The 50-öre coin was used most in the 1940s and 1950s.





Hannes Janzén,  
Maria Bergsten and  
Tom Andersson

that provide good knowledge of the financial system. Moreover, the Riksbank must maintain a practical crisis management capacity in normal conditions. The Riksbank therefore organises its own crisis exercises and also participates in exercises together with other Swedish and foreign authorities, primarily supervisory authorities and ministries of finance, to evaluate and improve emergency preparedness. As cross-border activities of banks have increased, it has become increasingly important to implement crisis exercises with the participation of authorities from different countries. Financial crisis management has also become a high-profile issue for the Riksbank's work in various international forums.

### Activities in 2010

The Riksbank's financial stability work in 2010 was largely characterised by the financial crisis and its aftermath. After having stabilised in the winter of 2009/10, unease again increased in the financial markets in spring 2010 as a consequence of the state of the public finances of several countries in southern Europe. The unease became acute in May in connection with the downgrading of the Greek government's credit rating.

The increased uncertainty meant that liquidity in the capital markets and the availability of US dollars gradually became worse during the spring. At the same time risk premiums rose on the interbank market (see Chart 1 in the section Maintaining the value of money – price stability). The Riksbank therefore temporarily increased its contingency facility to supply dollars in the Swedish financial system (a more detailed description of the increased contingency facility is included in the account of the year's monetary policy operations in the Asset Management section). In the summer unease sub-

sided again only to increase again in November, when Ireland applied for a support package from the International Monetary Fund (IMF) and the EU.

Despite unease in the international financial markets, during the year the Riksbank was able to wind up the extraordinary measures taken when the global financial crisis reached Sweden in autumn 2008. The winding up took place successively as the functioning of the markets on which Swedish banks are dependent for their funding improved (see the section Maintaining the value of money – price stability). The Swedish banks' access to market funding was facilitated by the banks having in recent years taken in more capital, extended the maturity of their market funding and increased the quality of their liquidity reserves.

### The aftermath of the financial crisis

In 2010 the extensive work continued of reforming national and international regulatory codes and improving supervision of the financial sector to minimise the risk of new financial crises. An important part of this work in Sweden is to clarify the Riksbank's responsibility for financial stability.

### New international regulatory framework

A large part of the Riksbank's stability work was focused during the year, as in 2009, on studying and influencing the framing of future financial regulatory frameworks and supervision. Since Swedish banks and financial institutions are governed by laws framed at EU level, which in turn to a great extent are based on guidelines drawn up by other international bodies, the Riksbank participated in continued discussions both at EU level and within the Bank for International Settlements (BIS).

During the year a new regulatory framework for financial institutions – called Basel III – was established. The framework will be gradually implemented by 2019. The overall purpose of the new framework is to strengthen banks' resilience to negative events, thereby reducing the probability of future financial crises. The new rules impose requirements on the banks to hold more capital and capital of better quality than has been required up to now. This means an increase in the minimum capital requirement at the same time as the banks must hold a larger percentage of equity capital, in other words capital that can better cover their losses. The new regulatory framework also imposes requirements concerning the banks' liquidity management so as to reduce the liquidity risk in the financial system.

As a consequence of the new regulatory framework the Riksbank initiated a project to study how the new rules can affect Swedish banks' lending volumes and interest rates in Sweden, and what this may imply for the economy and monetary policy. The project is being run jointly by the Riksbank's Financial Stability Department and Monetary Policy Department.

The Riksbank also participated in a working group in BIS tasked with investigating if the banks' funding structure and liquidity management have changed as

a result of the financial crisis. In addition, the Riksbank participated in the work of framing revised international standards for financial infrastructure companies.

#### *Increased cross-border work*

The financial crisis has shown that there are great differences in legislation at national level. Because of these differences, during the crisis it was difficult to handle problems in banks that operate in several different countries. Consequently several international projects are in progress that address how banks with cross-border operations are to be dealt with. For example, First Deputy Governor of the Riksbank Svante Öberg, in his role as member of the EU's Economic and Financial Committee (EFC), on behalf of the Riksbank is addressing the issue of how the deposit guarantee scheme could be made more effective by a more harmonised regulatory framework for payments and funding in the EU and how regular stress tests could increase the transparency of the banking sector. Deputy Governor Lars Nyberg is continuing to lead a working group on behalf of the EFC in studying how cooperation between authorities in different countries functioned during the crisis. The work of the group in 2010 concerned studying possible ways to set up funds for dealing with and winding up banks in crisis and to investigate how these funds can be financed with taxes or contributions from financial institutions in the EU. Within the framework of BIS the Governor of the Riksbank Stefan Ingves is leading the work of examining in particular how central banks can be structured to work effectively with stability issues.

In 2010 the Riksbank also took part in the preparatory work ahead of the start-up of the new European Systemic Risk Board (ESRB) in 2011. The most important tasks of the Systemic Risk Board are to identify and rank the risks to the financial system in the EU and to issue warnings and recommendations when the risks are deemed to be material. The Riksbank contributed by participating in the preparatory work within the EFC and ECB and by submitting

comments to the Ministry of Finance on proposed legislation concerning the ESRB.

The Riksbank also continued to develop cooperation with the Nordic and Baltic countries. Together with Finansinspektionen the Riksbank initiated a new cooperation forum for central banks and supervisory authorities in these countries, which is to focus on their major cross-border banking activities and facilitate the work within the framework of the ESRB.

In 2010 the Riksbank also signed an agreement on financial stability, crisis management and crisis solution together with Finansinspektionen, the Ministry of Finance and their Nordic and Baltic counterparts. This meant that the authorities in the Nordic and Baltic countries were the first to introduce the provisions of the EU-wide agreement on cross-border financial stability established in June 2008.

#### *A coherent regulatory framework and clearer division of roles between authorities in Sweden*

In view of the lessons learned from the financial crisis and the extensive regulatory work that is in progress in the international arena, the Riksbank believes that it is important to carry out a thorough overhaul of the financial regulatory framework in Sweden as well. The General Council of the Riksbank and the Executive Board of the Riksbank accordingly proposed in a joint submission to the Riksdag that one or several inquiries should be set up to review the regulatory framework in the financial sector.

The submission included a proposal to review the Sveriges Riksbank Act to clarify the Riksbank's responsibility for financial stability. Within the framework of a review of the Act, a definition of the term financial stability should also be contemplated. Financial stability is an important prerequisite for society in general and is currently included in the remit of both the Riksbank and Finansinspektionen. In the submission the Riksbank also underlined the importance of formulating an arrangement for handling the administration, reconstruction or winding up of financial institutions in distress. The inquiry



*The Mint of Finland mints all Swedish coins. The Mint of Finland will also ensure that the 50-öre coins collected will be melted down for recycling. A 50-öre coin melts at about 1 000 degrees Celsius.*



Pether Burvall

should also propose how the regulations should be drawn up to enable Swedish authorities to deal with problems that arise in cross-border operations.

Another important part of the proposed overhaul of the regulatory framework in the financial sector is to clarify the division of roles between different authorities. This involves, for example, how the division of responsibilities and coordination between the Riksbank and Finansinspektionen can be improved, and how the division of responsibilities between the Riksbank and the National Debt Office should be as regards borrowing for the foreign currency reserve. Moreover, the inquiry should analyse whether the Riksbank needs to be granted particular tools to promote stability in the financial system, regardless of whether this is needed to achieve the price stability target and regardless of whether there is a financial crisis situation.

#### *Need for better information to strengthen the stability analysis*

The financial crisis has also shown that there is a need to review the information that the Riksbank has today for analysing financial stability. Better bank-specific information as well as more information about the banks' borrowers and the financial markets would contribute to increasing understanding for how and where systemic crises may arise.

One way for the Riksbank to gain access to better information is to strengthen cooperation with the participants in the financial markets and increase knowledge of how the markets function. Since 2008 the Riksbank has accordingly carried out surveys of agents active in the Swedish fixed income and foreign exchange markets to obtain the market participants' view of risk. In 2010 the Riksbank also

focused on further development of the forms of collecting and processing information from market contacts, so called Market Intelligence, by in part broadening the network of contacts and in part creating a better structure for using the information. The questions concerning Market Intelligence were also discussed at the meeting with counterparties in the money and foreign exchange markets arranged annually by the Riksbank.

In the autumn the Riksbank investigated for the first time the liquidity situation of the Swedish banks using stress tests. The purpose of this was to examine the actual liquidity situation of the banks and find out how it would develop if market conditions deteriorated rapidly. In addition, the Riksbank wanted to encourage the banks to improve their public reporting of liquidity to increase transparency concerning how the Swedish banking sector is funded. This would make it easier to assess any risks and vulnerabilities in the financial system.

The Riksbank also started an internal needs analysis to find out what information was lacking during the financial crisis and, in that case, how this information could be gathered and managed in the future.

#### **Inquiry on risks in the Swedish housing market**

The latest financial crisis has again shown that housing price developments can be significant both for financial stability and monetary policy. The Executive Board therefore decided in February to set up an inquiry on risks in the Swedish housing market (a short description of the monetary policy perspective of the inquiry is given in the section Maintaining the value of money – price stability).

From a stability perspective the development of prices of commercial properties and housing is important in several ways. Large falls in real property prices have played a prominent role in economic crises, both historically and internationally. These crises have often been preceded by a substantial credit expansion and rising debt. When prices have again fallen the banks have suffered major loan losses. Mostly it has been a case of falling commercial property prices, but in the latest financial crisis housing prices have also fallen.

In Sweden housing prices have risen substantially since the mid-1990s. Unlike many other countries, Swedish housing prices did not decline particularly in the financial crisis and have subsequently risen again (see Chart 9).

If a comparison is made of the housing market since the start of the 1980s, however, prices in the Swedish housing market have risen considerably slower than housing prices in Spain, Ireland, the United Kingdom and Norway (see Chart 10).

Most things indicate that the price rise of the past 15 years was driven by such fundamental factors as rising disposable incomes, low interest rates and low investment in construction. At the same time, the vulnerability of households has increased, since the loan-to-value ratios of new loans have increased, with a large proportion of these new loans to households

being taken at variable interest rates. In the case of a fall in housing prices this entails a risk that the size of individual loans will exceed the market value of the property that represents the collateral for these loans. Falling housing prices also affect banks' possibilities of issuing mortgage-backed covered bonds.

The Riksbank therefore follows continually household debt and solvency. The Riksbank's surveys show for example that the households with the largest debts also have the highest levels of income and wealth. Mortgages to households do not, therefore, represent any immediate threat to the banks and financial stability in Sweden. On the other hand, it is important to study how recent years' development in the Swedish housing market can affect financial stability in the long term.

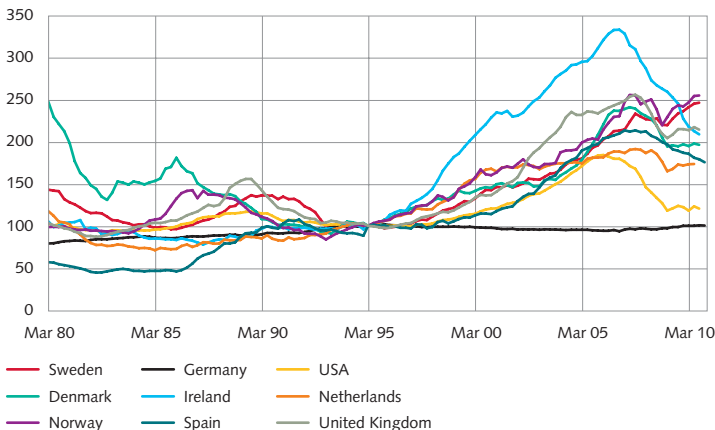
The ongoing inquiry also analyses the risks in the commercial property market. In recent years the indebtedness of Swedish property companies has increased and prices have fallen. Moreover, a considerable part of the banks' lending in fact goes to property companies, which means that the commercial property market has great significance for financial stability. Experiences from the Swedish banking crisis in the early 1990s also confirm this.

**European study of the cost of payments**

Since January 2010 the Riksbank has been participating in a study of the cost of payments from consumers to companies that the ECB is conducting together with 19 national central banks in the European central bank system. The purpose is to measure the costs that arise for the central bank, cash distributors, banks and firms, as well as in the technical infrastructure. This is the first time such a study has been made in several countries at the same time using a common method. This makes it possible to compare costs between EU countries at different stages, as well as to compare the costs to the national economy. The results will be presented in 2011.

**Chart 9**

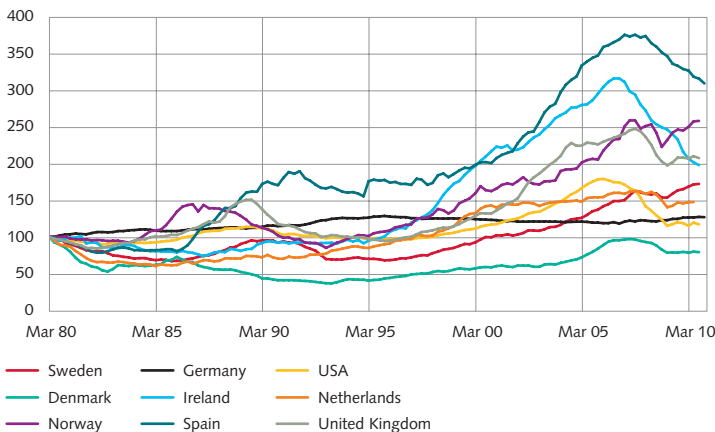
Real house prices, international comparison, index first quarter 1995 = 100



Source: Reuters EcoWin.

**Chart 10**

Real house prices, international comparison, index first quarter 1980 = 100



Source: Reuters EcoWin.



Despite the fact that the 50-öre coin is invalid the öre remains as a unit of calculation, so a product can still cost for example SEK 5.50 in a shop. When paying in cash, however, the price is rounded off in accordance with a special Act on rounding off amounts in öre. Amounts of 1–49 öre are rounded down and 50–99 öre rounded up. Card payments are not, however, rounded off.

### The Riksbank and financial stability

In December the Riksbank published a brochure “The Riksbank and financial stability”, which describes both the foundations of the financial stability work and the methods of analysing and assessing the state of the financial system. The purpose of the publication is to describe what financial stability is and why it is so important for the economy. The publication also describes the practical work of the Riksbank in promoting financial stability. By collecting all the information previously published and communicated by the bank on this subject and describing the concepts the bank often uses in its practical work with financial stability, the publication forms a kind of framework for the Riksbank’s remit in this area.

The latest financial crisis has, like earlier crises, shown that the development of financial activities requires constant new thinking in the field of financial stability. At present there are discussions, for instance, on the need to develop macroprudential policy and produce tools to oversee and counteract the build-up of systemic risk. The international discussions and the ongoing inquiry work in Sweden will probably soon lead to further decisions affecting the scope and design of the Riksbank’s work on promoting financial stability. This publication will therefore be regularly reviewed and updated.

### Assessment of financial stability

During the year the Riksbank assessed that the Swedish banks’ resilience had improved as a result of their capital situation being stronger, their loan losses being lower than expected and the markets on which the banks were dependent for their market funding functioning better. The greatest risks thought to have the potential to affect Swedish banks were weakened global growth and less efficient financial markets due to concern over public finances in Europe.

### Swedish banks were well equipped in the spring to meet the renewed market unease

When uncertainty in the international financial markets again increased during the spring, as concern grew about the previously known problems in the public finances of several countries, liquidity in the international capital markets and availability of funding in US dollars and euros deteriorated. For a time, no bonds were issued on the euro market. The Swedish banks were also affected by these problems, but to a lesser extent than financial institutions in countries with weak public finances. Furthermore, the Swedish financial markets functioned efficiently under the circumstances and in the first Financial Stability Report of the year in June the Riksbank assessed financial stability in Sweden as satisfactory.

Despite renewed unease in the financial markets, the economy continued to recover both in Sweden and the rest of the world. This meant that loan losses were not as great as had previously been expected. For the Swedish banks this also meant that the risk of future loan losses decreased. However, the Swedish banks had already suffered large loan losses, even though they had been less than the Riksbank had assumed in the main scenario of the Financial Stability Report in November 2009. One contributory factor for the loan losses being smaller than expected was that the low interest rate level had sustained borrowers’ solvency.

The Riksbank therefore revised its forecast of the banks’ loan losses downwards in June 2010. In the Riksbank’s new main scenario for the period 2010–2012, loan losses were expected to amount to SEK 61 billion. Compared with the previous forecast in November 2009, this meant a downward adjustment of SEK 48 billion for the period 2010–2011. Most of the losses were still expected to arise from the banks’ operations in the Baltic countries.

## More important measures taken by the Riksbank in 2010 in connection with the financial crisis

For a complete description of measures implemented by the Riksbank during the year please see the Riksbank’s website.

**1 January** The swap agreement with Eesti Pank expired at the turn of the year 2009/10.

**1 February** The swap agreement with the Federal Reserve expires.

**4 February** The Riksbank ceased offering loans at a maturity of twelve months but continued to offer variable-rate loans at maturities of three and six months. The interest rate on these loans was raised at the same time.

**22 March** The swap agreement with Latvijas Banka expired.

**20 April** The Riksbank ceased offering loans at maturities of both three and six months, but replaced them with variable-rate loans at a maturity of 28 days. The interest rate on these new loans was set at the average repo rate over the maturity of the loan with a supplement of 0.3 percentage points.

**26 May** The Riksbank decided to issue certificates with the right of resale and with a longer maturity as a complement to the instruments used by the Riksbank since autumn 2008 to manage liquidity surplus in the banking system.

**29 June** The first of the remaining twelve-month fixed-rate loans matured.

**16 July** The Riksbank raised the price of 28-day loans in Swedish kronor to the average repo rate over the maturity of the loan with a supplement of 0.5 percentage points.

**25 August** The second of the remaining twelve-month fixed-rate loans matured.

**4 October** The Riksbank held the last auction for extraordinary loans to meet any borrowing requirement in connection with the maturity of the last fixed-rate loan.

**6 October** The last twelve-month fixed-rate loan matured.

The banks were estimated to be well equipped to meet these losses. Behind this assessment lay good earnings for the Swedish banks and the fact that they were well-capitalised. These factors also contributed to the banks' improved ability to obtain access to market funding. All the major banks gained access to normal funding without government guarantees in the first half of 2010.

Even if Sweden and the Swedish banks were considered to be in a good position to withstand fiscal unease in the rest of the world, this constituted an indirect risk in the Swedish financial markets. A stalling of the economic recovery in the euro area could also delay the recovery in Sweden. The Riksbank therefore assessed the banks' resilience against a considerably worse, but less probable, scenario in a stress test. In the stress test it was assumed that the economic recovery that had started in many countries would be broken off and world economic developments would be weakened, which would lead to a considerable deterioration in the state of the financial markets and their functioning. The stress test showed that even with such a scenario the banks would manage to maintain the statutory Tier 1 capital ratio – their equity in relation to the risk-weighted assets would exceed the statutory minimum of 4 per cent.

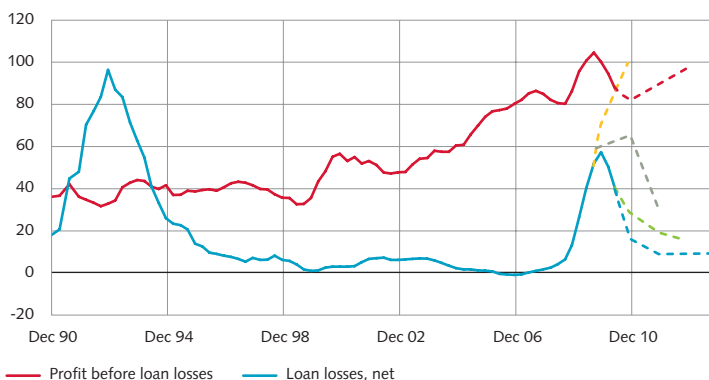
*The Swedish banks' resilience continued to improve in the second half of the year*

As a result of the economic recovery the situation of the Swedish banks continued to improve. The economic recovery had become stronger than previously expected. Consequently, the Swedish banks' loan losses continued to fall and according to the Riksbank's forecast in the Financial Stability Report in December they were lower than the Riksbank had expected in June. Loan losses were expected to continue to fall and reach more normal levels at the end of the forecast period (see Chart 11). In the Riksbank's new main scenario loan losses were expected to total SEK 42 billion for the period 2011–2013. At the same time the markets in which Swedish banks obtain funding were functioning better and better and the banks found it easier to obtain market funding. The Riksbank therefore assessed that the banks' resilience to negative unexpected events was still good. In its assessment the Riksbank also took into account the fact that the Swedish banks' capital situation was comparatively good.

At the same time the Riksbank pointed out that there were several risks that could affect the Swedish banks. These risks were related in part to global economic developments and in part to the banks' market funding. A weaker economic recovery in the rest of the world could lead to a renewed increase in banks' loan losses. In addition, the international financial markets were still characterised by unease, which was largely due to uncertainty about the outlook for the countries with weak public finances, such as Ireland and several countries in southern Europe. If unease in the financial markets increased further it

**Chart 11**

Profit before loan losses and loan losses (net) in the major banks, cumulative over four quarters, SEK billion, 2010 prices

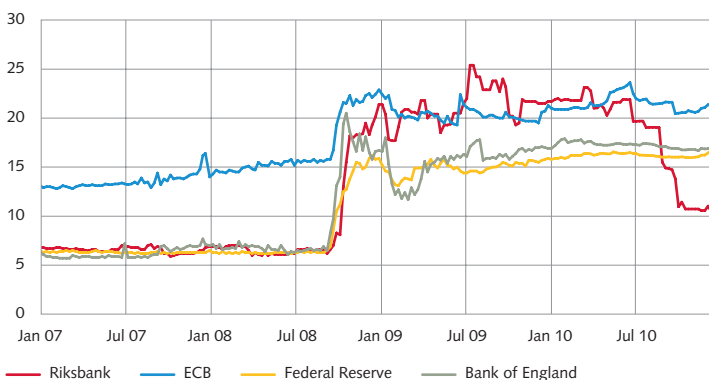


Note: The broken lines represent forecasts. The forecast for profit before loan losses (red line) is in accordance with the consensus estimate presented in SME Direkt in October 2010. Other forecasts are the Riksbank's main scenario for net loan losses (blue line) and net loan losses in the main scenario in June 2010 (green line), December 2009 (grey line) and June 2009 (yellow line).

Sources: Bank reports, SME Direkt and the Riksbank.

**Chart 12**

The central banks' extraordinary measures, balance sheet as percentage of GDP



Sources: Reuters EcoWin, the Riksbank, the ECB, the Bank of England and the Federal Reserve.

could have an adverse effect on the Swedish banks, since half of their funding consists of market funding, particularly in foreign currency. The Riksbank also pointed out that the high indebtedness in the Swedish household sector could entail refinancing risks for the Swedish banks if investors in Swedish covered bonds started to question developments in the Swedish housing market.

The Riksbank's stress test of Swedish banks' resilience during the autumn showed again, however, that the banks would manage to maintain the statutory Tier 1 capital ratio even if their loan losses increased substantially.

Furthermore, in the year's second Financial Stability Report the Riksbank presented the results of the stress test of the banks' liquidity situation. The test results indicated that vulnerability in the Swedish banks was somewhat higher than the average for a

sample of European banks. Among other reasons, this was because the Swedish banks hold a large proportion of less liquid assets such as mortgages, at the same time as their securities funding is to a certain extent short-term.

The Riksbank considered that the Swedish banks should retain or increase the capital levels they had during the autumn due to the uncertainty about both the state of the economy and the implementation of the new capital requirement under the Basel III rules. The Riksbank also recommended that the banks continue to extend the maturity of their funding to reduce their vulnerability if the markets used by the banks for their funding were to become less efficient. The banks were also to take increased account of the refinancing risk in their mortgage lending. The Riksbank also assessed that clarity of the banks' public liquidity reporting needed to be improved.

## Follow-up

The financial system in Sweden could maintain its functions in 2010, despite the developments on the international financial markets being affected by problems in the public finances of several countries.

The global financial crisis entered a new phase in which the focus shifted from banks' loan losses and liquidity supply to the major consolidation in public finances facing several European countries. Some of the budget problems in these countries could be attributed to costs directly due to the financial crisis. As a consequence of the unease in international financial markets that had grown in the wake of the fiscal uncertainty, several central banks reintroduced crisis measures that they had previously started to successively wind up.

The Swedish banks were not affected by the renewed market unease to the same extent as many other European banks. This was largely because the Swedish banks were well-capitalised from an international perspective and that their loan losses had not been as great as was first feared. The strong Swedish public finances also contributed to a more stable development in the financial markets in Sweden. Unlike many other central banks, the Riksbank was there-

## International work

Apart from the work carried out within the BIS, the ESCB and the EFC the Riksbank also had other international commitments. For example the Riksbank is responsible for Sweden's capital contribution to the IMF. Governor of the Riksbank Stefan Ingves is Sweden's governor in the IMF, while Deputy Governor of the Riksbank Barbro Wickman-Parak represents the Riksbank on the Nordic-Baltic Monetary and Financial Committee, which is the constituency's highest policymaking body. The Committee is made up of deputy governors of the central banks and state secretaries in finance ministries from the Nordic and Baltic countries and meets twice a year to discuss IMF issues. In 2010–2012 Denmark represents the Nordic-Baltic constituency on the Board of the IMF.

During the year the Riksbank made efforts to encourage the IMF to strengthen its analysis of the financial sector. As part of this the Riksbank supported the decision to make Financial Sector Assessment Programs (FSAP) compulsory for 25 countries with large financial sectors, including Sweden. Within the framework of these programmes the IMF analyses the financial sector, authorities, legislation

and supervision in the respective countries. The IMF can also propose measures if deficiencies or risks should be discovered. The IMF then annually follows up how far a country has progressed in dealing with any deficiencies. In 2011 the IMF will update the first FSAP for Sweden, which was carried out in 2001. The Riksbank also provides technical expertise for following up the FSAPs for other countries.

It is also important to analyse cross-border relationships and differences between different countries' regulatory frameworks. The Riksbank therefore encourages the IMF to extend its analysis of financial sectors to include analysis of entire regions. Potential weaknesses can then be identified, thereby making it possible to deal with future crises effectively. For example, in spillover reports the IMF will analyse how individual countries' economic policy affects other countries.

The IMF has also reviewed how its loan frameworks can be developed to prevent crises. The Riksbank supported the decision to create a second crisis-prevention loan instrument, the Precautionary Credit Line. This is a programme that offers loans for preventive purposes to countries that conduct a good economic policy, to stop

disruptions from leading to the outbreak of an economic crisis. The new loan programmes impose fewer conditions on the applicant countries than the traditional loan programmes. During the year the IMF's member countries also discussed various procedures for giving emerging market countries and developing countries a voice in the IMF that better reflects the increased importance of these countries in the world economy. The Riksbank considers it important that the Fund has good legitimacy with the member countries so that it gains respect for its policy recommendations. Consequently the Riksbank expressed its support during the year for transferring voting powers from over-represented countries to emerging market and developing countries. For both Sweden and the Nordic-Baltic constituency, the voice reform entails marginally lower voting power.

The Riksbank also provides technical assistance to central banks in developing countries. In 2010 this included cooperation with the central banks of Kenya, Uganda, Vietnam and Albania. The activities were financed by funds from the Swedish International Development Cooperation Agency, Sida.

fore able to continue winding up its liquidity assistance measures, which is reflected in the Riksbank's balance sheet for the year (see Chart 12). All Swedish banks gained access to normal funding in early summer and therefore left the government loan guarantee scheme.

The Swedish financial infrastructure also functioned well during the year. The annual evaluations of the payment systems and systems for trading in financial instruments showed that all parts of the Swedish infrastructure for the most part met internationally established standards.

During the year the Riksbank clarified its way of communicating the risks that could be building up in the financial system. The first Financial Stability Report of the year had a partly new design with the Riksbank's main scenario, risk assessment and stress tests in a specially integrated chapter. In the second Financial Stability Report of the year the stress tests of the banks' resilience to contagion risks and loan losses were supplemented by a stress test of the banks' liquidity. In order to increase clarity of communication concerning the risks identified in the Financial Stability Report and the measures required to safeguard financial stability the Riksbank also started to give more explicit recommendations to the Swedish banks in the year's second report.

## ■ The RIX payment system

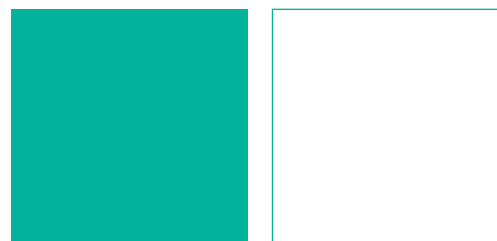
The RIX payment system is the Riksbank's system for funds transfers. It forms the hub of the Swedish financial system, since it enables its participants – banks, clearing organisations and many other market agents – to make transfers in a way that does not imply credit or liquidity risk, which in turn reduces the risks to the financial system. A RIX participant can make transfers from its own account with the Riksbank to another participant's account with the Riksbank. These transfers can refer to the participants' own financial transactions or transactions on behalf of their customers.

By and large all payments in Swedish kronor that are not made internally within an individual bank are handled in some form in RIX. The turnover in the system over six days is equivalent to Sweden's GDP.

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.

Since RIX is of decisive importance to the efficient functioning of the financial system, the Riksbank has set a high target for its availability. The system must be available at least 99.85 per cent of the time it is open. RIX must also meet customer requirements. Consequently, the Riksbank's aim is that 80 per cent of customers are satisfied with RIX. All costs relating to the provision of services in RIX are to be covered by fees paid by the participants. This also means that the Riksbank itself pays fees to the system in accordance with the same principles as the other participants and pays for the functions used for implementing monetary policy.

In association with RIX the Riksbank also provides special accounts and intraday credit to facilitate securities settlements. Euroclear Sweden, the Swedish central securities depository, manages these accounts and credit on behalf of the Riksbank.



*In 1555, 50 öre was approximately equivalent to a year's pay for a milkmaid. The same amount was paid for a litre of milk 400 years later. In the mid-1990s you could talk on your mobile for about six seconds for the same price. In 2009, 50 öre was equivalent to the deposit on a soft drink can.*



## Activities in 2010

One new participant has joined RIX since the beginning of the year. At the close of 2010 there was a total of 23 participants in the system.

RIX handled on average 11 754 transactions per day in 2010. This is an increase of 16 per cent compared with 2009. However, in that year the number of transactions in RIX increased mainly in the third four-month period. Compared with that period, the average number of payments in the third four-month period of 2010 was somewhat lower. The average transaction was about SEK 46 million. In December 2010, 68 per cent of transactions were less than SEK 500 000, which means that the number of relatively small payments decreased compared with the same period of 2009.

At the same time, the average daily turnover was about SEK 545 billion. Adjusted for transactions related to the Riksbank's special loan programme, this means a 6 per cent decrease compared with the previous year.

On average the RIX participants had a credit facility of about SEK 151 billion during the year, which is a decrease of SEK 54.6 billion compared with the previous year. This credit facility is equivalent to the value of collateral which is pledged by the participants to the Riksbank and which is not used as security for other credit granted by the Riksbank. The sum of the maximum credit that each participant utilised per day was equivalent on average to 43 per cent of this credit facility.

In November the Riksbank upgraded both the technical platform and the software application used by RIX.

Since RIX is of great importance to the financial system, the Riksbank needs to have efficient contingency procedures if the technical system should fail. During the year the Riksbank therefore carried out several exercises of contingency procedures, both independently and with the participants.

During the spring a study of the Riksbank's role in the central payment system was completed. This study, which was initiated in the autumn of 2009, analysed whether the Riksbank or another external operator should provide the system. The study established that there are several possible alternatives in which the role of the Riksbank could be smaller than at present. The conclusion was that there may be economic benefits from contracting out the technical operation of RIX, but that it is doubtful if there are any benefits from reducing the role of the Riksbank further. After completion of the study the Executive Board of the Riksbank decided to continue to supply RIX and be responsible for its functional operation. However, the question of technical operation was studied separately as a bank-wide issue. In January 2011 the Riksbank made a decision to engage an external operator for the technical operation of the system, on condition that this operator can meet the Riksbank's requirements regarding functionality, security and cost-efficiency.

## Follow-up

The Riksbank's targets for the RIX payment system were met in 2010. The system's overall function was good, though 3 disruptions affected availability towards the end of the year. The system was available for 99.93 per cent of the time when payments were being handled, which means that the availability target was met. In addition, during the year there were 3 incidents in RIX that had limited consequences for the participants.

The cost of the operations was SEK 68.3 million, 98.2 per cent of which were covered by fees. This means that full cost coverage was not achieved, but since a deviation of  $\pm 10$  per cent is allowed in an individual year the target of fees covering costs can nevertheless be regarded as met.

In 2010 the Riksbank did not conduct any survey of the participants in the system. The 2009 customer survey showed, however, that 97 per cent of the respondents were satisfied or very satisfied, which is higher than the target of 80 per cent. A new customer survey will be made in 2011.

## RIX in an international perspective

RIX is linked to payment systems in other countries in that CLS Bank International is a participant in the Swedish payment system. CLS Bank operates a foreign exchange settlement system that covers 17 currencies. This means, for example, that disruptions in other payment systems can affect RIX and vice versa. CLS Bank is not, however, the only foreign RIX participant. Of the 23 RIX participants, 8 are based outside Sweden.

Consequently, to enable the Riksbank to operate and develop RIX effectively, it is necessary for the Riksbank to cooperate well with other central banks that operate large payment systems. The Riksbank cooperates in this way with the Norwegian and Danish central banks. Cooperation with the Norwegian central bank (Norges Bank) is particularly important, since the Riksbank and Norges Bank have chosen the same technical platform for their large payment systems. The Riksbank also acts

together with Norges Bank in the forum for central banks that the supplier of the technical platform has established.

At the request of the Swedish market participants, the Riksbank is also involved in the discussions on creating a pan-European platform for securities settlement. This project is called TARGET2-Securities and is run by the ECB and the national central banks in the countries within the monetary union.

## ■ Cash management

The Riksbank is responsible for the provision of the country's banknotes and coins and has the exclusive right to issue Swedish banknotes and coins. This means that the Riksbank supplies banknotes and coins, destroys banknotes and coins that can no longer be used and redeems banknotes that are no longer legal tender.

The objective of this activity is to ensure that banknotes and coins are of high quality and that the Riksbank's cash management is secure and efficient. The general public and companies that handle cash must have great confidence in both banknotes and coins and cash management.

The Riksbank supplies cash to the banks via its two branches for cash management in Tumba and Mölndal. The banks then distribute the cash to the retail sector and the public via their twelve cash depots around the country. The practical management of these cash depots is conducted by the cash-in-transit companies where the depots are located. The cash-in-transit companies are also responsible for the distribution of banknotes and coins.

### Activities in 2010

The average value of cash in circulation in 2010 was SEK 140 billion. The value of cash in circulation has increased from year to year over a long period, but has now decreased for the third year in a row. The decrease from 2009 to 2010 was just over 2 per cent. This can in part be explained by the fact that the amount of 1 000-krona banknotes in circulation has decreased and that this banknote has not been fully replaced by banknotes of other denominations. In addition, it has also become more common to pay by credit or charge card in shops.

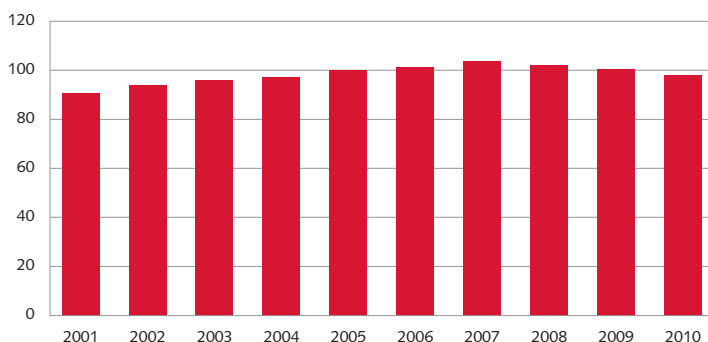
The average value of the banknotes in circulation was about SEK 98 billion (see Chart 13). The most common denomination, which accounted for the largest part of this total, was the 500-krona banknote. This banknote represented 32 per cent of the number of banknotes and 57 per cent of the total value of banknotes in circulation on average during the year.

The average value of coins in circulation was about SEK 6 billion (see Chart 14). The most common coin denomination was the 1-krona coin. This coin represented 60 per cent of the number of coins in circulation and 22 per cent of the total value of coins in circulation on average during the year.

During the year the Riksbank continued to work on the review of the Swedish banknote and coin series that was started in 2008. In March 2010 the Executive Board decided that the Riksbank will start the work of designing a new banknote and coin series. The objective is to modernise banknotes and coins so that they continue to have effective counterfeit protection. The coins also need to be lighter and smaller to reduce handling costs and environmental impact. The work of designing the new banknote

Chart 13

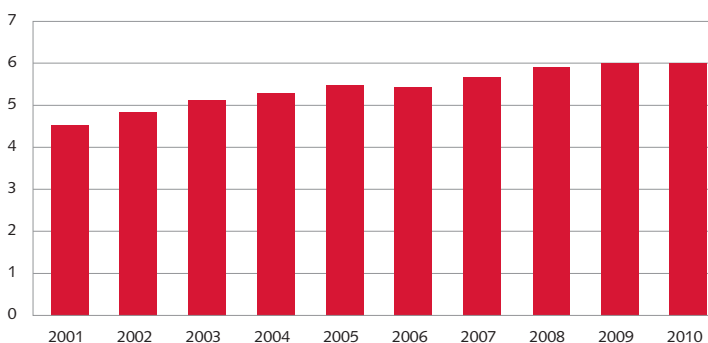
Average value of banknotes in circulation, SEK billion



Source: The Riksbank.

Chart 14

Average value of coins in circulation, SEK billion



Source: The Riksbank.

and coin series is carried out in cooperation with banks, cash-in-transit companies, retail industry organisations and the National Federation of the Blind.

In June the Riksdag decided, on the basis of a submission by the Riksbank, that the Riksbank is to issue two new denominations – a 200-krona banknote and a 2-krona coin. These denominations will replace a considerable number of 100-krona notes and 1-krona coins, which should mean that the number of banknotes and coins will decrease. In the Riksbank's submission to the Riksdag the Executive Board proposed that the Riksbank should also issue a 20-krona coin. The General Council of the Riksbank did not, however, consider that the 20-krona banknote should be replaced by a coin. Consequently, the Riksdag decided that the question of introducing a 20-krona coin should be deferred until further notice and rejected that part of the Executive Board's proposal.

On 30 September 2010 the 50-öre coin ceased to be legal tender. The coin can, however, still be redeemed at banks until 31 March 2011.

Furthermore, the Riksbank issued a commemorative coin on the occasion of the wedding of Crown Princess Victoria (see Figure 2). The coin was issued in two denominations – one silver coin in the denomination of

**Table 2**

## Banknotes and coins

	2006	2007	2008	2009	2010
Average value of banknotes and coins in circulation (SEK billion)	107	109	108	107	104
Average value of banknotes in circulation (SEK billion)	101	104	102	100	98
Average value of coins in circulation (SEK billion)	5	6	6	6	6
Number of banknotes in circulation (millions)	372	390	392	354	351
Number of coins in circulation (millions)	2 071	2 047	2 168	2 236	2 256
Number of counterfeited banknotes	996	1 248	1 512	1 064	1 503

Note: The information on average values of banknotes and coins and the number of banknotes and coins in circulation is rounded off. The information on number of coins in circulation in 2010 also includes commemorative coins.

Source: The Riksbank.

**Figure 2**

## Commemorative coins in 2010



SEK 300 and one gold coin in the denomination of SEK 4 000. According to preliminary information, 11 650 silver coins and 4 370 gold coins were sold. Definitive data on the number of commemorative coins sold will be known when the coins ordered at the end of December are delivered by the Mint in Eskilstuna.

In 2010 work was in progress to prepare the construction start for a new cash management office in accordance with the decision by the Riksbank in 2009. The office will be situated in Sigtuna municipality and will replace the Riksbank's two existing offices for cash management. Construction is expected to start in early 2011 and the office is planned to be in operation at the beginning of 2013.

During the year the Riksbank carried out a new public procurement process for banknote manufacture. Crane AB won the contract and will be manufacturing Swedish banknotes for at least the next three years.

The Riksbank also carried out a follow-up of how the new depot structure for cash management is working. The follow-up showed that cash management on the whole is conducted more effectively in the current depot structure than before. The division of responsibility between the Riksbank and private agents also works well and will be retained in future.

The Riksbank's cash management advisory board held two meetings in 2010. Representatives of banks, bank cash depots, cash-in-transit companies, the retail trade, trade unions and the relevant authorities participate in the board. Among the issues addressed by the board were the Riksbank's review of the banknote and coin series, the Riksbank's follow-up of depot structure for cash management, a survey of Swedes' payment habits and developments as regards robberies of banks, cash-in-transit vehicles and shops.

**Follow-up**

There was very little counterfeiting of Swedish banknotes in 2010. The value of counterfeit notes removed from circulation during the year amounted to SEK 145 420, which is a decrease compared with 2009. However, the number of counterfeit banknotes removed from circulation has increased somewhat during the year. It is mainly the older 50-krona note without a foil strip that has been counterfeited. The Riksbank considers that security of cash management is at a high level in other respects as well.

The Riksbank receives regular updates on how cash management in society is functioning from the cash management advisory board and the working groups linked to the board. In that way the Riksbank gains knowledge of how market agents regard the functioning of cash management. The Riksbank's assessment is that cash management functions well and that there is great confidence in banknotes and coins as a means of payment.

## ■ Asset management

The market value of the Riksbank's financial assets was SEK 325.7 billion at year-end. The total return was SEK –2.3 billion, while return excluding exchange rate effects was SEK 6.7 billion. Tactical asset management contributed SEK 59.7 million to the return.

The Riksbank manages financial assets primarily to ensure that it can fulfil its statutory objective and perform its tasks: to implement monetary policy, be prepared to intervene in the foreign exchange market and be able to provide temporary liquidity assistance to banks. This places high demands on the composition of assets. On the basis of these demands, assets are managed to provide as high a long-term return as possible in relation to the risk taken. A good long-term return on assets strengthens the financial independence of the Riksbank.

Each year, the Riksbank decides on the strategic aim for asset management. This covers, for example, the framework for what the allocation of the various currencies and assets in the foreign currency reserve should be and the average time to maturity that the securities in the foreign currency reserve should have.

### Review of the Riksbank's asset management

In its consultation response regarding the report "Riksbankens finansiella oberoende" (The Riksbank's financial independence) (SOU 2007:51, Fi2007/6427) the Riksbank made it clear that there was reason to review the size of the foreign currency reserve and the degree of currency risk in the Bank's financial assets. At the same time the Riksbank announced its intention to conduct a general review of the guidelines for asset management. During the year the Riksbank investigated and analysed several questions internally. The General Council of the Riksbank and the Executive Board also made a joint submission to the Riksdag on the further need for inquiries that address for example the question of borrowing for the foreign currency reserve and the amount of equity.

The single greatest financial risk in the Riksbank's balance sheet is that the Swedish krona is appreciating considerably in value. This leads to a fall in value of the foreign currency reserve in Swedish kronor, which in turn reduces the size of the bank's equity capital. During the year the Riksbank analysed the possibility of reducing currency risk by using standardised derivative instruments and in 2011 will investigate whether the currency risk can be managed by the Riksbank entering into bilateral agreements with suitable counterparties.

One lesson from the internal review is that in its asset management the Riksbank should lay even greater weight on managing the foreign currency reserve so that the bank can always fulfil its commitments. This means that in many cases the Riksbank should depart from what is regarded in asset management contexts as good market practice. This has influenced the framing of the Riksbank's investment policy for 2011.



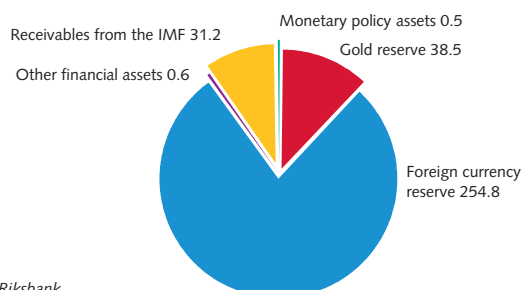
Mårten Gomer and  
Linda Palmqvist

In the joint submission to the Riksdag, the General Council and Executive Board proposed that an inquiry should review the financial regulatory framework also as regards issues concerning the Riksbank's asset management. The proposed inquiry should, for example, analyse the extent and range of the Riksbank's borrowing entitlement and of the National Debt Office's obligation to assist the Riksbank with such borrowing, all in the light of various regulations in the Treaty on the Functioning of the European Union. In May the Riksdag approved the Riksbank's proposal in this respect and informed the Government that the financial regulatory framework shall also be reviewed in these respects.

During the year the Riksdag also dealt with a scrutiny matter regarding the independence of the Riksbank, which was raised by the strengthening of the foreign currency reserve carried out in 2009 and the application of the Act on Central Government Borrowing and Debt Management in this context. In its statement to the Committee on the Constitution the Riksbank reported that it shares the assessment of the Government Offices that the current system is compatible with the regulation of the Riksbank's independence in the Instrument of Government, the Sveriges Riksbank Act and Community law, since the Sveriges Riksbank Act gives the Riksbank the right to strengthen the foreign currency reserve in other ways than by borrowing via the National Debt Office.

**Chart 15**

The Riksbank's financial assets at the end of 2010, SEK billion



Source: The Riksbank.

**The Riksbank's financial assets**

The Riksbank's financial assets consist of the gold and foreign currency reserves, including receivables from the International Monetary Fund (IMF), assets associated with the Riksbank's monetary policy operation and other financial assets (see Chart 15).

The foreign currency reserve consists of interest-bearing securities in foreign currency with high liquidity and low risk, mainly government bonds. The fact that most of the foreign currency reserve is invested in foreign currencies creates a currency risk that affects the Riksbank's net profit, measured in Swedish kronor. To reduce the fluctuations in value of the foreign currency reserve in kronor (currency risk), the Riksbank invests in a number of different currencies in addition to those normally used for interventions on the foreign exchange market or for liquidity assistance. The Bank mainly buys euros (EUR) and US dollars (USD), but also GB pounds (GBP), Norwegian kronor (NOK), Australian dollars (AUD) and Canadian dollars (CAD) (see Table 3).

Since the market for Norwegian government bonds is relatively small and has a low turnover, the Riksbank opted not to invest directly in the Norwegian bond market. Instead, the Riksbank invests in US bonds, and converts their currency risk to Norwegian kronor in the foreign exchange derivatives market. Otherwise, the Riksbank's asset allocation is in line with the currency allocation. In order to enhance return on the assets under management the Riksbank also invests in government-guaranteed securities and Australian semi-government bonds.

Like many other central banks, the Riksbank has a gold reserve. This is mostly a remnant of the time when the value of the banknotes and coins in circu-

lation was linked to gold. However, the gold reserve can also help offset fluctuations in the value of the foreign currency reserve, since the price of gold does not usually follow the same pattern as bond prices in the foreign currency reserve.

The Riksbank's assets also include receivables from the IMF. The Riksbank loans to the IMF, which in turn lends money to developing countries and countries in financial crisis.

In order to implement its monetary policy, the Riksbank may also hold Swedish kronor, known as monetary policy assets. Until 2008 these mainly consisted of the receivables from Swedish banks arising when the Riksbank lends money by buying securities from the banks – the monetary policy repo. The banking system now has a liquidity surplus that the Riksbank borrows via overnight loans (fine-tuning operations) and by issuing Riksbank certificates, so that the monetary policy transactions result instead in the Riksbank having a debt to the banks.

In addition the Riksbank has other financial assets consisting of financial derivatives.

**The Riksbank's financial regulatory structure and risk management**

The Riksbank has approved a financial risk policy that establishes the overall frameworks for the risk the Riksbank is prepared to accept in asset management. The Asset Management Department has a Middle Office that is responsible for day-to-day risk control and calculation of return on the Riksbank's assets. There is also a Risk Division in the Riksbank, which is part of the General Secretariat and responsible for overall risk control.

The Riksbank's financial risks exist in the form of liquidity risk, market risk and credit risk. Liquidity risk is the risk that the Riksbank will be unable to fulfil its obligations because the assets in the gold and foreign currency reserves cannot be sold, or can only be sold at a materially reduced price. Market risk is the risk that the market value of the Riksbank's assets will fall. Market risk can in turn be divided into currency risk, interest rate risk and gold price risk. Credit risk is the risk of losses due to the Riksbank's counterparties or issuers of the securities in which the Riksbank has invested failing to meet their commitments.

The Riksbank monitors the asset management risks on a continuous basis. The main risk measurement for market risk is Value-at-Risk (VaR). VaR measures

**Table 3**

Currency and asset allocation in the foreign currency reserve, per cent

	USD	EUR	GBP	CAD	AUD	NOK	Total
Currency allocation	20	50	10	5	5	10	100
Asset allocation	30	50	10	5	5	0	100

Source: The Riksbank.

## The Riksbank's operational framework for implementation of monetary policy

The Riksbank determines the level of the repo rate to enable the inflation target to be met. When the Executive Board has made its repo rate decision the market rates are then affected by this decision via the operational framework for implementation of monetary policy.

The Riksbank's operational framework for implementation of monetary policy is designed to steer the shortest market rate, the overnight rate. The idea is that by determining the repo rate level and giving an assessment of how the repo rate will move in the next three years the Riksbank will also affect interest rates in the longer term, since expectations of future short-term interest rates determine the level of interest rates with somewhat longer maturities. In that way, a stable overnight rate anchors interest rates with longer maturities, thereby also affecting activity and price movements in the economy.

### Deposit and lending rates set the framework for the overnight rate

The Riksbank manages the overnight rate by determining the conditions for the banks' deposits and lending with the Riksbank. The banks can deposit with or borrow from the Riksbank overnight. The banks do this at rates that are published in advance, the deposit and lending rates, which are respectively 0.75 percentage points below or above the current repo rate. This difference creates an incentive for the banks to borrow from and to deposit funds as a first choice with each other at the overnight rate. The difference between deposit and lending rates is called the interest rate corridor.

### Daily operations limit movements in the overnight rate

Deposit and lending facilities ensure that the overnight rate stays within the interest rate corridor. But the Riksbank also wants the overnight rate to be as stable and close to the repo rate as possible, in the middle of the interest corridor. The more exact positioning of the overnight rate within the interest rate corridor is, however, a matter for negotiation between the banks on the overnight market. Since the width of the interest rate corridor is 1.5 percentage points, the overnight rate can vary considerably from one day to another, depending on what the banks agree on in the negotiations.

The Riksbank is therefore prepared to conduct fine-tuning operations at the close of every day. The volume of the operations is determined by the net position of the banking system in relation to the Riksbank at the close of the day. The fine-tuning operations involve meeting the bank system's borrowing or deposit requirement on a particular day at a rate of interest that is 0.1 percentage points above or below the repo rate. They therefore help to keep the overnight rate close to the repo rate.

### Repos and Riksbank certificates reduce the size of fine-tuning operations

If the banking system as a whole needs to borrow from the Riksbank there is a structural deficit in the payment system. Conversely, if the banking system has a deposit requirement, there is a structural surplus.

For several years, until summer 2008, there was a structural deficit in the payment system. The Riksbank then supplied the banking system with liquidity via weekly repos. The Riksbank bought securities from the banks, while agreeing to sell back the securities one week later at a pre-determined price based on the current repo rate. From summer 2008 the banking system has instead had a liquidity surplus in relation to the Riksbank.

To draw in this surplus liquidity in the payment system, once a week the Riksbank issues short-term certificates (known as Riksbank certificates), which the banks can use to deposit their liquidity at the repo rate. Since the banks receive 0.1 of a percentage point more if they deposit in Riksbank certificates than if they deposit in the fine-tuning operations, the certificates should be relatively attractive as deposit alternatives.

The number of Riksbank certificates to be issued is determined as follows. In the first stage, the Riksbank makes a forecast of the bank system's deposit requirement in the coming week. In practice, this is a matter of forecasting the most important changes in the relevant items in the Riksbank's balance sheet during the week. It is mainly one item in the balance sheet that is significant in this context – 'Banknotes and coins in circulation'. This item is affected by changes in the general public's demand for banknotes and coins.

In the second stage the certificates are issued. These deposits from the banks are recorded in the item 'Debt certificates issued' on the liabilities side of the balance sheet. When the certificate matures, the Riksbank pays interest on the past week's loan, the repo rate. At the same time a new issue of Riksbank certificates is made. The terms and conditions for the issue are normally announced every Tuesday and the certificate runs from Wednesday to Wednesday. If the issue is not fully subscribed, which has been the case in recent years, or if the forecast for the banking system's deposit requirements was not quite correct, the daily fine-tuning operations deal with the rest of the deposit requirement. These fine-tuning operations are also recorded on the liability side of the Riksbank's balance sheet.

### The operational framework during the financial crisis

In autumn 2008, when the interbank and securities markets ceased to function normally, the Riksbank, like several other central banks around the world, started to lend domestic currency and US dollars. The Riksbank's lending in Swedish kronor was aimed at both supplying liquidity to the banks and reducing market rates to companies and households.

This extraordinary lending led to an extensive liquidity surplus in the payment system, which the Riksbank absorbed via weekly issues of Riksbank certificates and daily fine-tuning operations. Through the increased lending the Riksbank's balance sheet grew from just under SEK 200 billion in summer 2008 to a peak of just over SEK 750 billion in summer 2009, in other words almost fourfold. After the Riksbank wound up the extraordinary lending, the balance sheet total decreased to SEK 327 billion at the close of 2010.

A more detailed description of how the operational framework for implementation of monetary policy functioned in relation to the Riksbank's balance sheet in recent years is given in Economic Commentary no. 1, 2011.

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 also regularly tests how sensitive the gold and foreign currency reserves are to unforeseen market occurrences. The tests show how much the value can decrease in the event of a particular imaginary or historical scenario.

In addition to the financial risks there are also operational risks. Such risks occur in all operations and may lead to losses if a person for example makes a mistake or does something that is not permitted, or if there is a fault in the technical systems.

### Activities in 2010

The fiscal unease in Europe and uncertainty concerning how it will affect economic recovery meant that demand for assets traditionally regarded as safe was great. This increased the value of the Riksbank's gold holdings and most of the bond holdings in the foreign currency reserve. During the year, however, the krona strengthened against both the euro and the US dollar, which reduced the value of the gold and currency reserve.

As the Riksbank successively wound up the extraordinary loans the extent of the Riksbank's structural operations was substantially reduced. At the close of the year only one small loan remained. On the other hand, the Riksbank implemented other measures to handle the effects of increased unease concerning problems with public finances in several European countries.

### Monetary policy operations

The Riksbank continued to hold regular auctions to offer loans in Swedish kronor to the monetary policy counterparties. As the banks could to a greater extent obtain funding from the market and demand for the Riksbank's loans consequently decreased, the auctions were held less often and the loan maturities were cut from the previous three, six and twelve months to 28 days. The credit offered by the Riksbank was at a variable interest rate and against ordinary collateral.

The improved ability of banks to obtain market funding was to some extent disrupted by the concern over public finances in Europe. This meant that liquidity in the capital markets and the availability of US dollars gradually became worse during the spring. Consequently, in May the Riksbank decided to increase its contingency facility to supply dollars in the Swedish financial system by keeping dollars immediately available from the Federal Reserve. In order to free dollars, the Riksbank carried out repos, which in simplified terms means that the Riksbank raised loans in foreign currency in the market and put up assets in the gold and foreign currency reserves as collateral. In the autumn the situation in the capital markets returned to normal without the Riksbank having needed to offer the banks dollar

loans, and so the contingency liquidity facility was gradually wound up.

In addition the Riksbank loaned to the IMF within the framework of Sweden's bilateral loan agreements with the Fund. The loans totalled USD 317 million and were financed with funds from the foreign currency reserve. These transactions are part of the IMF's loan programme with Greece, Iraq and Ukraine.

### Strategic management

For 2010, the Riksbank decided that the interest rate risk applicable to the foreign currency reserve should be 4.0, measured as modified duration, which means that the value of the foreign currency reserve will fall by about 4 per cent if the level of interest increases by one percentage point. In accordance with the decision the Riksbank was also to retain the currency and asset allocation introduced in 2006 (see Table 3). Within this framework, however, in 2010 the Riksbank made changes to the strategic asset allocation.

In January the Riksbank reduced its holdings of securities issued by government-guaranteed US mortgage institutions, since their liquidity had deteriorated and developments in the US mortgage bond market had become more uncertain. Instead, the Riksbank increased its holding of US government bonds to a corresponding degree.

The Riksbank also changed its holding of government bonds denominated in euros. In previous years this holding had by and large reflected the distribution of outstanding bonds in the market. When liquidity in the European bond market deteriorated in the spring there was reason to redistribute the bond holding to better reflect the Riksbank's asset management objectives as regards liquidity and credit risk. The redistribution was started in the spring but mainly implemented in the second half of the year.

The Riksbank decided not to change its gold holding during the year but estimated that the current size of the gold reserve was reasonable.

### Tactical management

Tactical management includes the part of the Riksbank's asset management that allows the Asset Management Department, within given parameters, to deviate from the strategic allocation of assets for the purpose of achieving higher return. For 2010 the Riksbank set the target for the higher return at 5.2 basis points, which corresponds to about SEK 91 million. The Riksbank also decided that the tactical management would be discontinued if losses exceeded SEK 250 million.

## Follow-up

The Riksbank's balance sheet total decreased substantially during the year. At the close of 2010 the balance sheet total was SEK 326.9 billion, which is SEK 381.9 billion less than at the close of 2009. The change is mainly due to a decrease in the Riksbank's lending to Swedish banks during the year.

### Monetary policy operations

The Riksbank's extraordinary lending to monetary policy counterparties in Swedish kronor against ordinary collateral is reported on the asset side of the Riksbank's balance sheet as 'Structural operations'. When the Riksbank deals with the liquidity surplus that arises in the market as a result of lending in Swedish kronor, this is reported on the liability side of the balance sheet as 'Debt certificates issued' and 'Fine-tuning operations'.

During the year the Riksbank offered loans in Swedish kronor for a total of SEK 575 billion. These loans were offered at the current repo rate plus an interest supplement. During the year the Riksbank reduced the length of the loans and raised the interest supplement. Demand for the loans thus decreased and only SEK 31 billion of the amount offered was loaned. In October 2010, in the last auction of the loan programme introduced in autumn 2008, there were no bids.

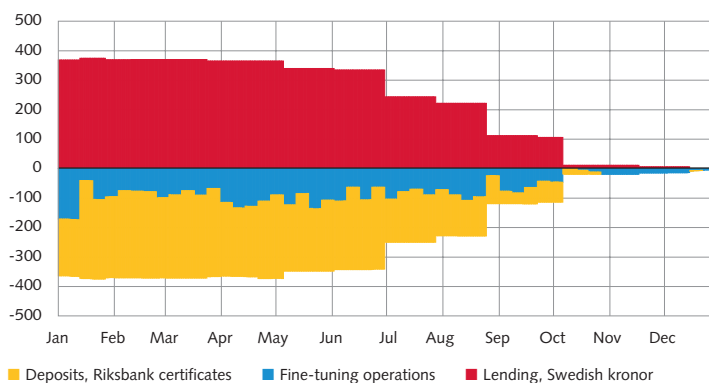
The three loans with one-year maturities totalling SEK 295.3 billion which the Riksbank had provided at a fixed rate in 2009 matured in 2010. Altogether the outstanding structural loans decreased by SEK 368.3 billion during the year and at the end of 2010 only one loan remained of SEK 0.5 billion (see Chart 16).

The Riksbank's lending in Swedish kronor gave positive net interest income during the year. The greatest contribution to net interest income came from the fixed-rate loans, and most of the year's interest income was generated in the period up to the first repo rate increase (see Chart 17). During that period the interest rate for the fixed-rate loans, and thus also the average lending rate, was higher than the deposit rate for Riksbank certificates (the repo rate) and the fine-tuning operations (repo rate minus 0.10 percentage points). After the repo rate was raised the average lending rate was lower than the repo rate and interest income decreased right up to the beginning of October, when the last fixed-rate loan matured. The Riksbank's interest income from lending in Swedish kronor exceeded the interest costs by SEK 340 million during the year (see Table 4).

When the Riksbank increased its contingency facility to supply dollars in the Swedish financial system in May, this was financed by borrowing against the bond holding in the foreign currency reserve. The interest the Riksbank paid for these loans exceeded the interest received by the Riksbank for its account balance with the Federal Reserve. The increased contingency liquidity facility therefore resulted in

Chart 16

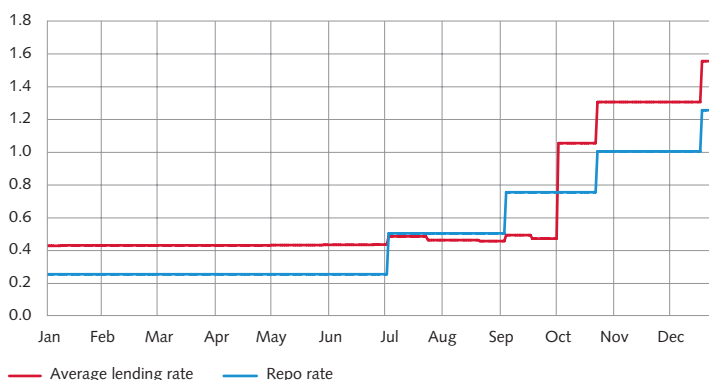
The Riksbank's deposits and lending, 2010, SEK billion



Source: The Riksbank.

Chart 17

Repo rate and average lending rate for the Riksbank's loans in Swedish kronor, 2010, per cent



Source: The Riksbank.

negative net interest income of SEK 18 million during the year (see Table 4).

A detailed summary of the financial performance and outstanding loan amounts for all extraordinary measures taken by the Riksbank as a consequence of the financial crisis are presented in the annual report's financial statements, before the "Five-year overview".

### Strategic management

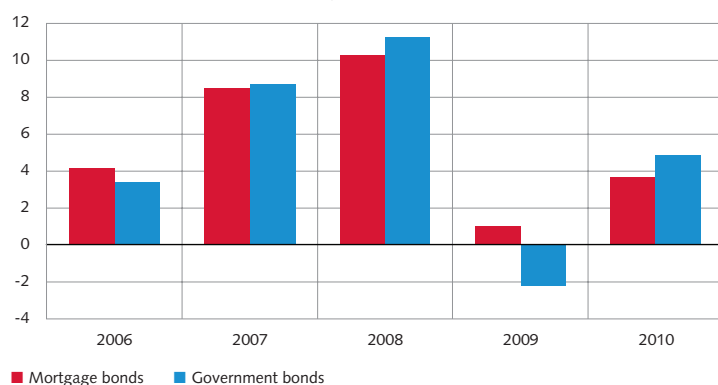
The market value of the Riksbank's gold and foreign currency reserves was SEK 300.8 billion at year-end. The reserves are made up of gold to the value of SEK 38.5 billion, assets in foreign currency (less the value of outstanding repos) to the value of SEK 254.4 billion and net receivables from the IMF to the value of SEK 7.9 billion.

The return on the foreign currency reserve was SEK -9.1 billion. The negative return is due to an average appreciation of the Swedish krona against the currencies in the reserve of 8.6 per cent. This entailed a negative exchange rate effect of SEK 15.2 billion, which affected the total earnings of the foreign currency



**Chart 18**

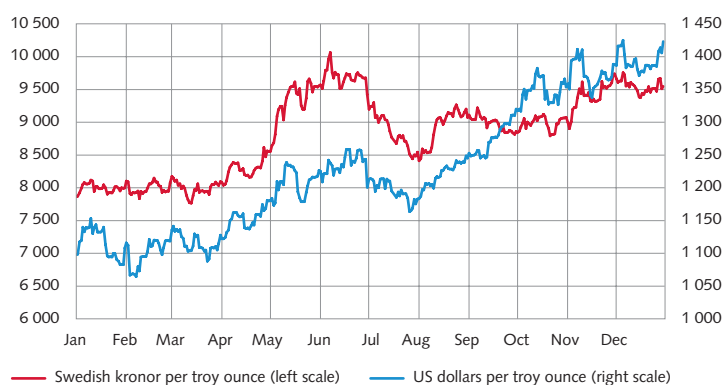
Return on US government securities and securities issued by government-guaranteed US mortgage institutions, 2006–2010, per cent



Source: The Riksbank.

**Chart 19**

Gold price movements, 2010



Note: One troy ounce is equivalent to about 31 grammes.

Source: The Riksbank.

reserve. Excluding exchange rate effects, the return was SEK 6.0 billion, or 3.3 per cent. The interest rates fell in most of the markets where the foreign currency reserve was invested, which contributed to the positive return.

In January the Riksbank halved its holding of bonds issued by government-guaranteed US mortgage institutions in favour of US government bonds, while the maturity of the government bonds was extended and the maturity of the mortgage bonds was shortened. The change in maturities contributed to the return on US government bonds in the foreign currency reserve being 1.2 percentage points higher than the return on bonds issued by government-guaranteed US mortgage institutions (see Chart 18).

In May 2009 the Riksbank decided to temporarily strengthen the foreign currency reserve by an amount equivalent to SEK 100 billion by borrowing foreign currency from the National Debt Office. The market value of assets in the part of the foreign currency reserve that constitutes the strengthening that had been decided was SEK 84.1 billion at the end of 2010. The net interest income for the year for this part was SEK -323 million (see Table 4).

During the year the price of gold increased considerably and reached new record levels (see Chart 19). The price of gold is normally measured in US dollars, and expressed in dollars the gold price increased by 29.5 per cent. The strengthening of Swedish currency against the dollar slowed the price increase calculated in kronor, but despite this the gold price in SEK increased by 21.6 per cent. The value of the Riksbank's gold holding increased by SEK 6.8 billion during the year.

**Table 4**

Net interest income from monetary policy measures, SEK million

	Net interest income 2008	Net interest income 2009	Net interest income 2010	Net interest income total
Lending in Swedish kronor	769	1 453	340	2 562
Lending in US dollars	70	156	–	226
Loan to Iceland	2	3	–	5
Loan to Latvia	2	2	–	4
Loan to Kaupthing	38	23	–	61
Loan to Carnegie	5	–	–	5
	<b>886</b>	<b>1 637</b>	<b>340</b>	<b>2 863</b>
Strengthening of the foreign currency reserve	0	-199	-323	-522
Increased contingency liquidity facility	–	–	-18	-18
<b>Total</b>	<b>886</b>	<b>1 438</b>	<b>-1</b>	<b>2 323</b>

Source: The Riksbank.

The market value of the Riksbank's receivables from the IMF was SEK 31.2 billion at year-end. Return on these receivables during the year was SEK 16 million, excluding exchange rate effects (see Table 5).

At year-end the total value of the other financial assets was SEK 639 million. Return on these assets, excluding exchange rate effects, was SEK 309 million for the year.

**Tactical management**

Tactical management generated a return of SEK 59.7 million. This is equivalent to 3.3 basis points, which falls short of the target by 5.2 basis points (see Chart 20). Tactical management return was impacted negatively by the poor price trend for the Riksbank's holding of government-guaranteed bonds.

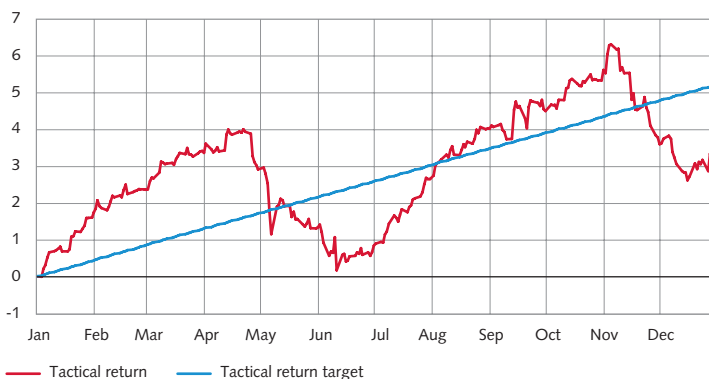
**Asset management risks**

In early 2010 the gold and currency reserve market risk continued to decrease. Due to concern over public finances, however, the volatility of the reserve increased substantially in the spring. Market risk, measured as Value-at-Risk, peaked at SEK 14.8 billion, to decrease again in the summer (see Chart 21). During the year the gold and currency reserve's Value-at-Risk was an average of SEK 8.6 billion.

The possibility of steering the composition of assets in the foreign currency reserve was restricted during the year by the deteriorated liquidity in the market. Consequently, the Riksbank decided in May to temporarily cease steering the modified duration towards the target of 4.0. As a consequence of the decision the duration was somewhat shorter, leading to a lower risk for the foreign currency reserve. In September the situation in the market stabilised and the modified duration was restored to about 4.0 (see Chart 22).

**Chart 20**

Return on the foreign currency reserve over benchmark index, 2010, basis points



Source: The Riksbank.

**Chart 21**

Value-at-Risk for gold and foreign currency reserves, SEK billion



Source: The Riksbank.

**Table 5**

Return on the Riksbank's asset management operations in 2010, SEK million and per cent

	Assets	Liabilities	Return	Return excl. exchange rate effects	Return excl. exchange rate effects (%)
Gold and foreign currency reserves incl. IMF	324 546	107 908	-2 911	6 034	2.75
Gold reserve	38 537	-	6 846	-	-
Foreign currency reserve	254 816	84 618	-9 140	6 018	3.30
of which strengthening	84 089	84 187	-323	-323	-0.35
IMF	31 193	23 290	-617	16	0.29
Other financial assets	639	0	309	309	-
Monetary policy measures	504	5 097	340	340	-
<b>Total</b>	<b>325 689</b>	<b>113 005</b>	<b>-2 262</b>	<b>6 683</b>	<b>-</b>

Note: Percentage returns are expressed on an annual basis.

Source: The Riksbank.

Chart 22

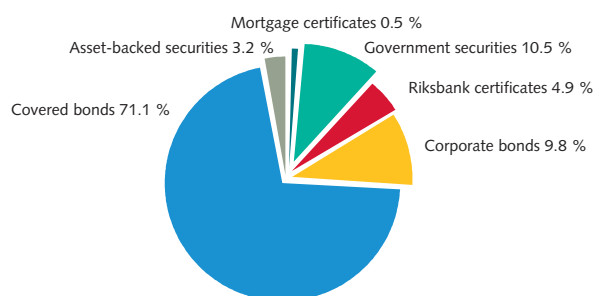
Modified duration of the foreign currency reserve, 2010



Source: The Riksbank.

Chart 23

Collateral by type of security, average, 2010



Source: The Riksbank.

### Risks associated with extraordinary measures

The risks of the lending offered by the Riksbank to Swedish banks for liquidity support and monetary policy purposes were limited by the borrowers, the monetary policy counterparts, as usual providing securities as collateral for the loans. The credit-worthiness of the securities is assessed on the basis of the credit ratings issued by Standard & Poor's, Moody's and Fitch Ratings. The Riksbank accepts securities with a credit rating of A- or better, but the majority of the collateral has a credit rating of AAA, which is the best.

Covered bonds are the type of security that is most often used as collateral (see Chart 23). Their percentage of all the Riksbank's securities increased during the year, while above all the percentage of Riksbank certificates decreased. The Riksbank also accepts corporate bonds and other debt instruments as collateral, as well as asset-backed securities. During the year the percentage of corporate bonds increased, while asset-backed securities were only used to a lesser extent.

The majority of securities used as collateral are issued in Swedish kronor, but the Riksbank also accepts securities in foreign currencies. The percentage of securities issued in Swedish kronor was on average 80.9 per cent of all securities.

### Asset management costs

The costs of asset management include both costs of managing the gold and currency reserves and costs of implementing monetary policy. In addition to transaction costs charged directly to the return on assets, the total costs for asset management were SEK 86 million, which can be compared with the equivalent cost in 2009, which was SEK 97 million.

## Seignorage

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 banknotes and coins, but nevertheless incurs some costs

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

The Riksbank's estimated seignorage for 2010 is SEK 3.5 billion, corresponding to

a return of 3.4 per cent. The basis on which seignorage is calculated can be found in the Riksbank's balance sheet and profit and loss account and in the reporting of the Bank's administrative expenses by function.

## ■ Organisation and management

The Riksbank continued to develop its organisation and management in the endeavour to achieve its vision to be among the best. A central Risk Division was set up in the General Secretariat as part of the focus on efficient internal control. Efforts to further develop the Riksbank as a workplace focused on international interchange of skills, development of a specialist career and preventive health and safety work. The regular follow-up and evaluation showed a satisfactory result in following the vision and strategic plan for the year.

The Riksbank was divided into seven departments in 2010. Three of the departments were directly focused on the Bank's main tasks: the Monetary Policy Department, the Financial Stability Department and the Asset Management Department (see Figure 3).

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 activities. The head of the General Secretariat chairs the Management Group.

During the year the Management Group decided to form two sub-groups. The administrative management group consists of the heads of the Administration Department, the IT Department and the General Secretariat. The policy management group consists of the heads of the Monetary Policy Department, the Financial Stability Department, the Asset Management Department and the General Secretariat. The purpose of the division into sub-groups is to better coordinate different administrative projects and processes as well as interdepartmental policy issues. The head of the General Secretariat chairs the two smaller management groups.

### Changes in the structure of the organisation

During the year the Riksbank made a few minor changes in its organisation to further adjust to the needs of the operations, thereby creating more effective decision-making and preparation processes.

In January a new division of the General Secretariat, the Risk Division, was established to bring together experts on operational and financial risk. The Risk Division supports the bank's activities with frameworks, methods and advice in all areas of risk, and also carries out an independent risk control of financial risks in the Riksbank's asset management. The purpose of the new Risk Division was to create better coordination and increased efficiency in the area, as well as providing better support to activities (see also the article 'Internal controls at the Riksbank'). When the Risk Division was established, the Risk Control Division in the Financial Stability Department was closed down.

In connection with the establishment of the new Risk Division the Riksbank also carried out a reorganisation in the area of security. Parts of the Security Division in the Administration Department were moved to the IT Department (information security), the new Risk Division in the General Secretariat and the Real Estate Division in the Administration Department (which at the same time was renamed the Real Estate and Security Division). The



operative responsibility for protection of individuals and protection of property remains with the Administration Department.

*Neil Howe, Helena Runnquist and Anja Andersson*

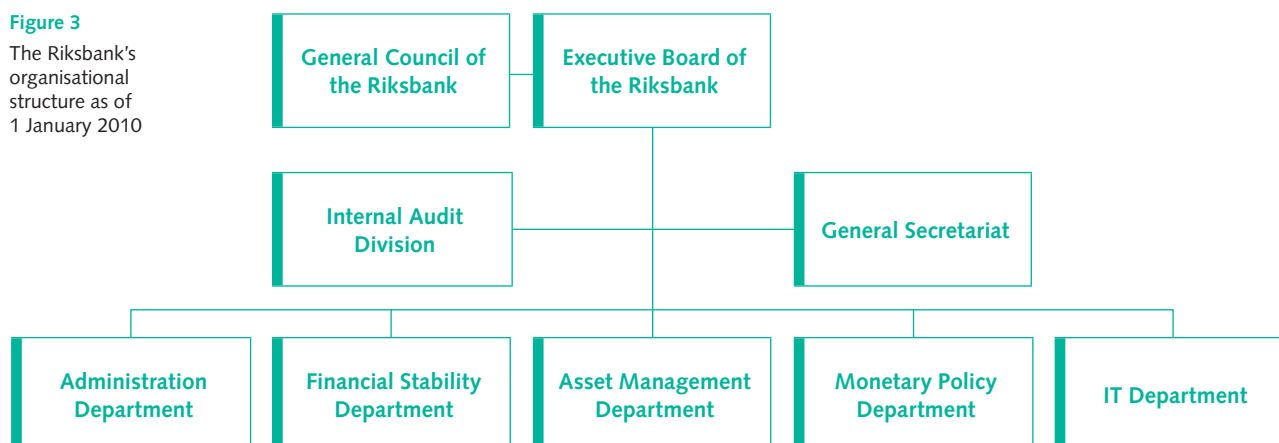
In February the Banking and Macroprudential Analysis Division in the Financial Stability Department was divided into two divisions, a Macroprudential Analysis Division and a Banking Analysis Division. The purpose of the change was to further improve the efficiency of the Riksbank's financial analysis.

The International Secretariat in the General Secretariat was closed down and responsibility for international questions was moved to the Financial Stability Department. The purpose of this change in organisation was to coordinate international work in the department where most of this work is carried out.

In April a new procurement function was set up to raise the efficiency and quality of procurement. Procurement support is now all part of one function in the Administration Department, instead of as previously being in different divisions of the Administration Department and the General Secretariat.

Figure 3

The Riksbank's organisational structure as of 1 January 2010



### The departments of the Riksbank and their tasks

#### ■ Administration Department

The Administration Department is responsible for the Riksbank's work on cash management, personnel development and recruitment, procurement support, office and property services, transport, security, budget documentation, bookkeeping and payroll administration.

*Head of Department: Agneta Rönström*

*Number of full-time equivalents at year-end: 65*

#### ■ 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 mechanism. The Department analyses the risks and threats to the stability of the Swedish financial system. The work of the department is primarily analysis of the major banks, equity and credit markets as well as market structure. In addition, the Department coordinates the Riksbank's international work.

*Head of Department: Mattias Persson*

*Number of full-time equivalents at year-end: 52*

#### ■ Asset Management Department

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

*Head of Department: Sophie Degenne*

*Number of full-time equivalents at year-end: 36*

#### ■ Monetary Policy Department

The Monetary Policy Department is responsible for the economic analysis that provides a basis for decisions made to meet the price stability target. It also conducts monetary policy and foreign exchange policy operations in accordance with monetary policy decisions. In addition the department has the main responsibility for all analysis of interest and foreign exchange rates. The department monitors and ana-

lyses economic and price developments and is responsible for financial market and balance of payments statistics. This department also contains the Riksbank's Research Division.

*Head of Department: Per Jansson (as of 16 January 2010)*

*Acting Head of Department: Jesper Hansson (until 15 January 2010)*

*Number of full-time equivalents at year-end: 76*

#### ■ Internal Audit Department

The Internal Audit Department examines and assesses whether risk management and the governance and management processes fulfil their purpose with regard to the objectives established for the Riksbank's activities. The department also contributes to the effectiveness and improvement of these activities.

*Head of Department: Patrick Bailey*

*Number of full-time equivalents at year-end: 5*

#### ■ IT Department

The IT Department's task is to provide cost-effective and user-oriented IT support to the Riksbank's different areas of activity. The department mainly works with the IT systems' architecture and infrastructure, and is responsible for the operation, maintenance, purchasing, development, 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 full-time equivalents at year-end: 59*

#### ■ General Secretariat

The General Secretariat coordinates day-to-day operations and supports the Executive Board's governance and control as well as strategic development of the Bank's activities. The department also provides secretariat services for the General Council, the Executive Board and the Management Group. The General Secretariat coordinates the Riksbank's information work and work with operational and financial risks. There are also functions within the department for regulatory compliance assurance, business continuity coordination and legal support.

*Head of Department: Kai Barvöll*

*Number of full-time equivalents at year-end: 40*

## ■ Management of activities

The Riksbank's objectives, tasks and organisation are laid down in the Sveriges Riksbank Act, Rules of Procedure and Instructions. The work of the Riksbank is governed by a long-term vision, strategic objectives and an annual business plan.

The Riksbank's vision is that the bank is to be among the best with regard to quality and efficiency to maintain a high level of confidence. This means that the Riksbank must be among the best in comparison with other central banks, other authorities, academic institutions and private companies.

As an organisation the Riksbank must be prepared for change, carry out what it is most suited for and evaluate its activities. The Riksbank must also be open and communicate so that a wide range of external parties can benefit from knowledge of the Bank's function and performance. The Bank is to have professional employees with leading edge competence and broad expert knowledge, as well as great understanding of the wider context and its correlations.

The strategic objectives form the hub of the Riksbank's planning and follow-up work. In 2010 they were divided into seven functions: monetary policy, financial stability, payment system, cash management, asset management, statistics and bank-wide functions. The bank-wide functions were further divided into eight target areas: communication, employees, management and governance, IT, administrative support and service, environment and resources.

For each target there are one or more indicators that provide a picture of the Riksbank's performance in that area. For example the Riksbank examines how secure and effective cash management is by measuring the percentage of correctly delivered orders and assesses the level of security and compliance.

The responsibility for management of operations, their effectiveness, performance and risk management is decentralised to the heads of department, who in turn report to the Executive Board. On behalf of the Executive Board the Internal Auditing Department makes an independent evaluation of the operational activities' internal control, risk management and management processes (see also the article 'Internal controls at the Riksbank').

### Most indicators show satisfactory performance for 2010

The Riksbank works actively to follow up the vision and the strategic objectives. During the year the Executive Board received two follow-up reports containing the status of the indicators, the priority action plans and the budget.

Altogether 78 indicators were linked to the strategic objectives in the 2010 business plan. More indicators have been developed since the 2009 business plan, such as indicators for evaluating statistics. The number of bank-wide indicators has increased and they are now evaluated to a greater extent in each department. The number of indicators of working climate and competence have also been increased to enable a better picture of how the ambitions for these areas are being achieved. These include indicators of internal mobility

## Internal controls at the Riksbank

In June 2010 the Riksdag Board made a submission to the Riksdag, proposing amendments to the Financial Administration Regulations (Riksdag Administration, Parliamentary Ombudsmen and Swedish National Audit Office) Act (2006:999). The Riksdag Board's submission also concerns the Riksbank and includes a proposed change to the Sveriges Riksbank Act which means that the Executive Board of the Riksbank must ensure that the bank has internal controls that operate satisfactorily to ensure that the bank presents its accounts accurately and fairly, manages central government funds prudently and conducts its activities effectively and in accordance with current legislation. The Executive Board must also submit an annual assessment on the adequacy of internal controls at the Riksbank. In December, the Riksdag decided to amend the Sveriges Riksbank Act in accordance with the Riksdag Board's proposal. The legislative changes take effect as of the

2011 financial year. The corresponding requirements already apply to authorities under the Government.

The Riksbank endeavours to perform its duties effectively, in accordance with current legislation and with reliable, accurate and fair reporting. This requires good internal control of activities. In 2010 the Riksbank therefore continued its initiative to create a more coordinated and well-documented process of working with these matters. The initiative is to make it possible for the management of the Riksbank to monitor and report on legal compliance.

As part of this, a central Risk Division was established at the General Secretariat in January 2010. The division is responsible for coordinating financial and operational risk management, business continuity, information security, regulatory compliance and other matters related to internal controls. The purpose is to improve the

overall perspective and work more effectively with internal bank-wide issues.

The overall process of identifying and managing operational risks was developed further during the year and is now more clearly linked to business planning and the Riksbank's strategic objectives. The four-monthly reporting of financial risks was also coordinated with the reporting of operational risks.

The Riksbank also further developed and improved incident management so as to improve the risk management process. As of 1 January 2011 the Riksbank will implement a new and coordinated routine for incident reporting. In connection with this the reporting requirements will also be clarified. In addition work is ongoing to survey and describe the business processes, both from an overall perspective and in more depth within specific functions.



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Sofia Lindh

and interchange of experiences with other institutions. Moreover, several indicators for employees and leadership are measured in the Riksbank's employee survey. No new employee survey was carried out in 2010. The next survey will be in 2011.

#### *Most strategic objectives achieved*

In the follow-ups during the year most indicators showed satisfactory performance. This applies for example to inflation expectations, which in a five-year perspective were close to the inflation target, and availability of the payment system, which was 99.93 per cent.

Some indicators pointed to poorer performance. For example, the Riksbank's technical assistance to a number of central banks was not implemented to the extent planned due to a lower demand for expert assistance than expected. The number of published research articles was also below target. Both internal mobility and external interchange of experience were below target at the beginning of the year, but increased later. The relative return on the Riksbank's assets was below target.

#### *Great confidence among different target groups in society*

Confidence is described in the vision as the Riksbank's most important asset, so the Riksbank uses regular external surveys to measure how well the Bank has achieved the confidence objectives. One example is the annual survey of Swedish households carried out by the SOM Institute in Gothenburg. The latest survey showed that the Swedish public's confidence in the Riksbank is high: Of the respondents, 53 per cent had very high or fairly high confidence in the Riksbank. This puts the Riksbank in fourth place among social institutions, after health-

care, universities/higher education institutions and the police. This is an improvement compared with last year's survey, when the Riksbank was ranked fifth. The survey was conducted in autumn 2009 and its results were presented in spring 2010.

The confidence barometer presented by Medicakademien in November 2010 confirms that public confidence in the Riksbank as a social institution is high. The Bank comes second in this survey, after universities and higher education institutions.

#### *Openness and clarity of communication*

The Riksbank makes regular analyses of its media image. The questions that attracted great attention in the media in 2010 were the repo rate increases in the second half of the year, successive normalisation of monetary policy and stabilisation of the financial system after the financial crisis. The withdrawal of the 50-öre coin also attracted attention. Most of the media publicity during the year was neutral and the picture of the Riksbank as expert was predominant.

The Riksbank was also reviewed in a major external evaluation of banks' and public authorities' communication during the financial crisis, which was carried out during the year within the framework of the private-public sector cooperation body for the financial sector (FSPOS), a working group led by the Riksbank. The evaluation shows that the Riksbank's communication worked well and that the Riksbank succeeded in maintaining confidence during the crisis. On the other hand, the Riksbank should have been clearer in its communication on the risks existing before the acute crisis stage.

In 2010 the Riksbank also carried out a comparative study of its own website and those of Norges Bank, the Bank of England and the Bank of Canada. The study showed that the Riksbank stands out as regards openness through the number of documents, background material and similar which are published on the website, but there is still scope for development in terms of instructive explanation of the bank's own activities. In a series of in-depth interviews with representatives of the high priority target groups on the Internet it also emerged that the Riksbank's website is well-structured and clear, but feels outdated and outmoded. On the basis of these results and taking other studies in this field into account, the Riksbank has started work on a web strategy to adapt the website functions and content in accordance with the needs of target groups.

## ■ Employees

According to its vision the Riksbank must 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.

Recent years' employee surveys show that the Riksbank is a good workplace and that its employees are highly committed to their work. From the outside as well the Riksbank is regarded as an attractive workplace. In a survey conducted in 2010 by the company Universum among students the Riksbank was ranked eleven by economists. In the public sector the Riksbank was ranked first, that is as the most attractive employer.

During the year work continued on further development of the Riksbank as a workplace.

### International work improves competence

The competence development initiative that was started at the Riksbank in 2009 continued, with increased focus on international interchange, among other things. In pace with increased globalisation the Riksbank's activities are to an increasing extent influenced by events in the rest of the world. The Riksbank participates regularly in about 130 international committees and working groups and also has direct contacts with central banks in other countries, partly to discuss matters of common interest, partly to provide expert assistance.

The Riksbank is positive towards its employees working in an international environment for a few years as part of their career path. In that way the Riksbank can contribute its knowledge in international organisations and derive great benefit later from the knowledge and experience gained by its employees while working abroad. The Riksbank therefore actively encourages its employees to seek positions abroad, for example by creating the conditions for families to accompany the employee abroad. During the year some of the Riksbank's employees were temporarily stationed in Brussels, Frankfurt and Rome.

### The career ladder and specialist career important for professional development

The Riksbank's career ladder, which aims to make individual development of its employees in different departments clearer and more transparent, was incorporated into the organisation during the year. The career ladder defines different stages of career development in terms of the complexity and level of responsibility of the tasks of work and clarifies the link between work and pay.

The career ladder makes the two career paths at the Riksbank visible – the management career and the adviser career. For many years the Riksbank has laid great weight on management training for the Riksbank's managers. In 2010 management training

focused on individual coaching and group development. To promote a feeling of belonging and interchange of experience in the manager group the Riksbank arranged regular manager meetings on different themes, such as crisis management, alcohol misuse and stress management. In addition, during the year a corresponding initiative was started for advisers. The initiative aims to support the advisers' skills development and to create an internal network covering all departments to spread knowledge and experience.

### Personal development and preventive health and safety work

In the spring all employees were given the opportunity to participate in a two-day course in personal development. On the basis of specific tools the participants had to reflect on their own skills, driving forces and values. Everyone was offered individual instruction in association with the course. A follow-up showed that many participants had made changes in their behaviour that benefit their work performance and development.

The Riksbank's employees were also given the possibility of participating in a major health programme in collaboration with the occupational health service. Within the framework of the health programme all employees are offered a health profile assessment and a muscle and movement analysis. After that they are given customised personal training on four occasions in one year. The health benefits will be evaluated in 2011.

Sickness absence among Riksbank employees was 1.7 per cent in 2010, which is a decrease of 0.8 percentage points compared with 2009.

### Diversity a prerequisite for effective groups

Groups consisting of people with different experiences and perspectives are more efficient and dynamic than groups consisting of individuals who are similar. Achieving well-structured working groups is therefore an important part of the Riksbank's long-term competence management, and so it is also important to have transparent recruitment processes that promote competence-based recruitment and prevent discrimination. During the year the Riksbank introduced new tools for recruiting employees aimed at further improving the quality and effectiveness of both the recruitment process and the final choice of applicant.

One of the objectives of the Riksbank's diversity work is to achieve an even gender distribution. During the year, 43 per cent of managers were female, which exceeds the target previously set that the under-represented gender should be at least 40 per cent.



## ■ Governance

The Riksbank is led by an Executive Board appointed by the General Council. The General Council is in turn appointed by the Riksdag (the Swedish parliament). The Executive Board has a joint responsibility for the strategic management of the Bank, while the General Council mainly has a supervisory function.

### Executive Board of the Riksbank

The Executive Board consists of six members appointed by the General Council for a term of five or six years. The General Council appoints a Chairman of the Executive Board, who shall at the same time be Governor of the Riksbank, and at least one Vice Chairman, who shall at the same time be a Deputy Governor of the Riksbank. The General Council also determines salaries and other employee benefits for the members of the Executive Board. In 2010 the Executive Board had the following members:



Stefan Ingves



Svante Öberg



Karolina Ekholm



Lars Nyberg



Lars E.O. Svensson



Barbro Wickman-Parak

#### ■ Stefan Ingves

*Term of office six years from 1 January 2006*

Stefan Ingves is Chairman of the Executive Board and Governor of the Riksbank. The heads of department report to Ingves and he is responsible for presenting proposals regarding appointments to the posts approved by the Executive Board. Ingves is a member of the European Central Bank (ECB) General Council and a member of the Board of Directors of the Bank for International Settlements (BIS). He is also Sweden's Governor in the International Monetary Fund (IMF). Ingves holds a PhD in economics and prior to 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 is First Deputy Governor of the Riksbank. He represents the Riksbank in the EU's Economic and Financial Committee (EFC) and in the ESCB's International Relations Committee. 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.

#### ■ Karolina Ekholm

*Term of office six years from 15 March 2009*

Karolina Ekholm is Deputy Governor of the Riksbank. She is the Governor of the Riksbank's alternate on the ECB General Council and participates together with the Governor of the Riksbank in BIS board meetings and BIS Governors' meetings. From 2010 Ekholm is on leave of absence from her professorship at the Department of Economics at Stockholm University. She has previously been a teacher and researcher at Stockholm University, Stockholm School of Economics and researcher at the Research Institute of Industrial Economics.

#### ■ 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 Committee on the Global Financial System and the ECB's Banking Supervision Committee. 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 Föreningsparbanken 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 Working Party Three. Since 2009 Svensson is an affiliated professor at the Institute of International Economics (IIES) at Stockholm University. He was professor at Princeton University from 2001 to 2009 (on leave of absence from 2007 to 2009). Prior to this he was a professor at the IIES at Stockholm University. He was an economic advisor 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 represents the Riksbank in the Nordic-Baltic constituency's committee for IMF cooperation. Wickman-Parak is an economist and was previously chief economist at the mortgage institution SBAB and an economist at the National Institute of Economic Research and at Sweden Post's economic secretariat. She worked at the Riksbank from 1970 to 1985.

### The Executive Board's tasks

The Executive Board has general responsibility for the strategic management of the Bank and determines the Riksbank's instructions. The role of the Executive Board as strategic decision-maker means that its work focuses on central decisions on monetary and exchange rate policy, important issues in the area of financial stability and the Riksbank's asset management. The Executive Board also makes the overall decisions on the Riksbank's activities, such as decisions on the Riksbank's strategic objectives, business plan and budget and on following them up. At the same time the Governor of the Riksbank has a clear mandate to follow up activities in relation to adopted plans and approved budget. The Governor of the Riksbank also has managerial responsibility for the heads of department, who prepare and submit proposals or background material to the Executive Board on matters to be decided by the Board.

The Executive Board makes decisions jointly at its meetings. The Chairman and the Vice Chairman of the General Council have the right to attend and speak at the Executive Board's meetings. They are not, however, entitled to vote or make proposals.

### The Executive Board in 2010

The work of the Executive Board in 2010 continued to be characterised by the handling of effects of the financial crisis. The Executive Board has participated in many conferences and seminars, both in Sweden and abroad, with this as the theme and many speeches during the year addressed such matters as the financial framework, regulation and stability in the financial system. Other subjects dealt with in speeches were current monetary policy, the state of the economy, experiences of the repo rate path and house prices. The members of the Executive Board held a total of 155 speeches during the year, 28 of which were published on the Riksbank website.

The Executive Board presents a written report on monetary policy to the Riksdag Committee on Finance twice a year. The report is supplemented by a public hearing of the Governor of the Riksbank in the Riksdag Committee on Finance. During the year Governor of the Riksbank Stefan Ingves attended the Committee on Finance for two such hearings. The Governor also participated a number of times in open and closed meetings of the Committee on Finance to discuss other matters, including the monetary policy assessment and the economic crisis in the Baltic countries. The Committee on Finance and the Committee on the Constitution also visited the Riksbank to participate in committee seminars.

The members of the Executive Board also participated in conferences and seminars arranged by the Riksbank during the year. For example, First Deputy Governor of the Riksbank Svante Öberg spoke at a seminar in April in connection with the presentation of a new book about statistics covering the growth of the Swedish monetary system, 'Historical Monetary

and Financial Statistics for Sweden: Exchange rates, Prices and Wages, 1277–2008'.

During the year the Executive Board held a total of 29 meetings, six of which were monetary policy meetings.

### External assignments of the Executive Board members

If a member of the Executive Board wishes to take up 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 2010. 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 Europaea
- Foreign Member of the Finnish Academy of Science and Letters
- Foreign 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
- Affiliated professor at the Institute of International Economics (IIES) at Stockholm University

## General Council of the Riksbank

The General Council consists of eleven members and as many deputies. The members are appointed by the Riksdag, after a general election, for a term of office of four years. The General Council selects from among its number a Chairman and a Vice Chairman.

The General Council consisted of the following members on 31 December 2010: Johan Gernandt (Chairman), Leif Pagrotsky (Vice Chairman), Peter Egardt, Sonia Karlsson, Bertil Kjellberg, Anders Karlsson, Gun Hellsvik, Lena Sommestad, Allan Widman, Peter Eriksson and Anders Flanking. The deputy members were Hans Birger Ekström, Tommy Waidehich, Ulf Sjösten, Ann-Kristine Johansson, Chris Heister, Bosse Ringholm, Ebba Lindsö, Catharina Bråkenhielm, Christer Nylander, Helena Leander and Håkan Larsson.

### The General Council's tasks

The General Council appoints the members of the Executive Board and decides on their salaries and other terms of employment. It also adopts the Riksbank's Rules of Procedure and decides on the design of banknotes and coins. The General Council also has the task of regularly monitoring the Riksbank's activities and how the Executive Board manages its business. One of the ways the General Council can perform its supervisory role is through the Chairman and Vice Chairman having the right to attend and speak at the Executive Board meetings, though not the right to vote or make proposals. The General Council also has an Audit Unit that, among other things, examines how members of the Executive Board perform their duties and 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 authorised public accountant.

The General Council submits proposals to the Riksdag concerning the allocation of the Riksbank's profits and makes a recommendation to the Riksdag with regard to the discharge from liability of the members of the Executive Board.

The General Council submits consultation responses within its field of competence and presents proposals, in consultation with the Executive Board, to the Riksdag and the Government regarding government amendments to statutes or other measures in its sphere of responsibility.

Twice a year the Chairman and Vice Chairman report to the Riksdag Committee on Finance about the work of the General Council.

### The General Council in 2010

During the year the General Council held 11 meetings.

The General Council received regular information from the Executive Board about the Riksbank's activities. The Executive Board consulted with the General Council on some submissions to the Riksdag and submitted a joint submission with the General Council on certain areas that require investigation as a result of the financial crisis.

An account of the General Council's activities is presented in the chapter "The General Council's annual report and proposal for allocation of the Riksbank's profits for 2010".



*Making the 50-öre coin invalid is the first step in changing the entire Swedish banknote and coin series. In June 2010 the Riksdag decided to introduce two new denominations: a 2-krona coin and a 200-krona banknote. This means that the future coin series will consist of the denominations 1, 2, 5 and 10 kronor and the banknote series of the denominations 20, 50, 100, 200, 500 and 1 000 kronor.*

## ■ Accounting policies

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 25 November 2010 (Ref. no. 2010-587-ADM), which came into force on 31 December 2010. The rules for current recording of transactions 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/2010/20). Under Chapter 10, Article 3 of the Sveriges Riksbank Act the Riksbank must apply the accounting guidelines of the European Central Bank System to the extent now appropriate.

### Changes in accounting principles

On 25 November 2010 the Executive Board updated the Rules for Bookkeeping and Annual Accounts at Sveriges Riksbank. The update was mainly to reflect the update of the Guideline of the European Central Bank on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks (ECB/2010/20) and to amend the accounting policy for commemorative coins in circulation.

The update of the rules on the basis of the Guideline of the European Central Bank on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks does not affect the annual accounts for 2010, since it referred to transactions and instruments that the Riksbank does not use at present.

The amendment to the accounting policy for commemorative coins in circulation means that an issue, when it has been in circulation for more than ten years, is no longer to be reported as a liability but instead written off and recorded as income. This change in policy had a positive impact on the Riksbank's profit for 2010 of SEK 536 million.

In addition some minor changes to headings were introduced for three items in the balance sheet, all related to monetary policy operations.

### Basic accounting policies

The following basic accounting policies have been applied:

- The accounting shall reflect financial reality and be characterised by transparency.
- The valuation of assets and liabilities and income recognition 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, provided 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 recognised as income and expenditure in the accounting period in which they were earned or arose, regardless of when payment is made.
- The criteria for measuring balance sheet items and profit and loss items must be applied consistently.

### Recognition of assets and liabilities

Assets and liabilities are only recognised in the balance sheet if it is probable that any future economic benefit associated with the asset or liability item will flow to or from the Riksbank and that substantially all of the risks and rewards associated with the asset or liability have been transferred to the Riksbank.

### Trade-date accounting

Foreign exchange transactions and securities transactions are recognised in the balance sheet on the settlement date. Realised gains and losses from net sales are booked on the trade date.

### Balance sheet valuation rules

Gold and securities are recorded at the exchange rates and prices applying on the closing date. The exchange rates below are used for revaluation at year-end. In the table below the exchange rates have been rounded off to four decimals.

	31.12.2010	31.12.2009
EUR/SEK	9.0106	10.2509
USD/SEK	6.7201	7.1521
GBP/SEK	10.4915	11.5550
AUD/SEK	6.8769	6.4161
CAD/SEK	6.7560	6.8278
SDR/SEK	10.3491	11.2123
NOK/SEK	1.1550	1.2340
JPY/SEK	0.0828	0.0768

Receivables, balances and liabilities are recorded at their nominal amount. Amounts in foreign currency are translated at the closing 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 trade date.

Shares and participations are recorded at cost of acquisition.

Tangible 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. Write-ups may only be made if the asset has a reliable and permanent value that materially exceeds the book value. Buildings are depreciated over a period of 50 years, other fixed assets over 5–10 years. Machinery and equipment, including computers, is depreciated over 3–7 years. Direct staff costs attributable to IT investments developed in-house are included in the asset's cost of acquisition.

### Repurchase agreements

Repurchase agreements are reported as loan transactions and therefore do not affect the holdings of securities and gold. A repurchase agreement is an agreement to sell assets, such as securities or gold, whereby the seller simultaneously undertakes to repurchase the assets at a specified price on a specific date in the future.

Assets pledged by the Riksbank as collateral for repos continue to be 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 purchase sum received 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 purchase sum paid is reported as a receivable. The difference between the two payments in a repurchase agreement (spot and forward) is allocated 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 equivalent to the nominal value and 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 included in the Riksbank's depots and the value of the banknotes and coins the Riksbank has destroyed and cancelled. Banknotes and coins in circulation that are no longer legal tender are recognised in the profit and loss account at the latest when they are no longer redeemed by the Riksbank. However, they must be recognised in profit or loss earlier if only a small amount is expected to remain to be redeemed and a provision is made at the same time for this amount. Commemorative coins and commemorative banknotes in circulation must be recognised in profit or loss when the issue has been in circulation for more than ten years.

### Recognition of income

Realised gains and losses are recognised in the profit and loss account.

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

Unrealised losses are recognised in profit and loss if they exceed unrealised gains that may have been previously recorded in the corresponding revaluation account. Unrealised losses recognised in profit and loss may not be reversed in 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 acquisitions of currency and gold are netted, the average cost of acquisition 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 or the gold price respectively. To calculate net sales, the realised gain/loss 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 recorded contract by contract within each group of derivative instruments. Groups with a positive value are recorded as assets and those with negative value as liabilities.

FX forwards are recorded in the amount corresponding to the contract's forward amount multiplied by the difference between closing day rates and trade date rates (spot). The difference between the trade date exchange rate (spot) and the contracted forward exchange rate is allocated as interest over the term of the contract.

The currency sold is booked on the trade date, multiplied by the difference between the trade date exchange rate (spot) and the average acquisition rate, as realised gains/losses.

The spot legs of FX swaps are booked on the settlement date at the trade date rate (spot). The forward legs of FX swaps are booked the same way as FX forwards, i.e. at a value corresponding to the contract's forward amount multiplied by the difference between the closing day rate and the trade day rate (spot). The difference between the trade date exchange rate (spot) and the contracted forward exchange rate is allocated as interest over the term of the contract. Unlike foreign exchange forwards, no net foreign exchange gains/losses arise when recording FX swaps.

Interest rate swaps are booked, for both the incoming and outgoing transactions, at an amount corresponding to the difference between the nominal amount of the contract and the nominal amount translated at the closing day rate. The resulting amount is translated to SEK at the closing day exchange rate.

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

Futures contracts are booked daily as realised gains/losses in an amount corresponding to the value calculated in the daily settlement.

## ■ Balance sheet

SEK million	Note	31.12.2010	31.12.2009
<b>ASSETS</b>			
Gold	1	38 537	31 691
Claims on residents outside Sweden denominated in foreign currency		282 555	302 348
Receivables from the IMF	2	31 175	30 898
Balances with banks and security investments	3	251 380	271 450
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		500	368 802
Main operations	4	–	–
Fine-tuning operations	5	–	–
Structural operations	6	500	368 801
Marginal lending facility	7	0	1
Other assets		5 334	5 997
Tangible and intangible fixed assets	8	389	406
Financial assets	9	521	521
Derivative instruments	10	584	136
Prepaid expense and accrued income	11	3 522	4 608
Other assets	12	318	326
<b>Total assets</b>		<b>326 926</b>	<b>708 838</b>

SEK million	Note	31.12.2010	31.12.2009
<b>LIABILITIES AND CAPITAL</b>			
Banknotes and coins in circulation		<b>105 401</b>	110 663
Banknotes	13	99 902	104 590
Coins	14	5 499	6 073
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		<b>5 142</b>	171 163
Deposit facility	15	45	56
Fine-tuning operations	16	5 097	171 107
Debt certificates issued	17	–	192 222
Liabilities to residents outside Sweden denominated in Swedish kronor	18	<b>69</b>	70
Liabilities to residents in Sweden denominated in foreign currency	19	<b>83 774</b>	92 544
Liabilities to residents outside Sweden denominated in foreign currency	20	<b>431</b>	–
Counterpart of Special Drawing Rights allocated by the IMF	21	<b>23 275</b>	25 216
Other liabilities		<b>535</b>	662
Derivative instruments	22	–	3
Accrued expenses and prepaid income	23	488	606
Other liabilities	24	47	53
Provisions	25	<b>220</b>	251
Revaluation accounts	26	<b>35 102</b>	37 818
Equity capital		<b>72 429</b>	64 025
Capital	27	1 000	1 000
Reserves	28	71 429	63 025
Profit for the year		<b>548</b>	14 204
<b>Total liabilities and capital</b>		<b>326 926</b>	708 838

Memorandum items, see Note 41.

## ■ Profit and loss account

SEK million	Note	2010	2009
Interest income	29	7 717	10 997
Interest expense	30	-2 135	-2 796
Net result of financial transactions	31	-5 123	6 714
Fee and commission income	32	67	58
Fee and commission expense	33	-11	-43
Dividends received	34	134	55
Other income	35	603	16
<b>Total net income</b>		<b>1 252</b>	<b>15 001</b>
Staff costs	36	-345	-342
Administration expenses	37	-240	-267
Depreciation/amortisation of tangible and intangible fixed assets	38	-63	-71
Banknote and coin expenses	39	-56	-117
Other expenses	40	-	-
<b>Total expenses</b>		<b>-704</b>	<b>-797</b>
<b>Profit for the year</b>		<b>548</b>	<b>14 204</b>



## Cash flow statement

SEK million	31.12.2010	31.12.2009
<b>OPERATING ACTIVITIES</b>		
Cash flow from operating activities	<b>11 263</b>	16 912
Interest received	10 892	13 231
Interest paid	-2 215	-2 796
Net received from financial transactions	3 133	7 192
Fees and commission received	67	58
Fees and commission paid	-11	-43
Other income	67	16
Administration expenses paid	-670	-746
Cash flow from operating activities, assets	<b>358 304</b>	-40 641
Gold	-	1 059
Receivables from the IMF	-4 682	-26 845
Security investments	-5 324	-101 703
Claims on residents in Sweden denominated in foreign currency	-	189 193
Structural operations	368 301	-104 001
Other assets	9	1 656
Cash flow from operating activities, liabilities	<b>-364 773</b>	21 106
Banknotes and coins in circulation	-4 726	-1 610
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	-166 021	-35 533
Debt certificates issued	-192 222	143 276
Liabilities to residents outside Sweden denominated in Swedish kronor	-1	-189 178
Liabilities to residents in Sweden denominated in foreign currency	-3 674	85 897
Liabilities to residents outside Sweden denominated in foreign currency	343	-7 437
Other liabilities	1 528	25 691
<b>Cash flow from operating activities</b>	<b>4 794</b>	-2 623

The table continues on the next page.

SEK million	31.12.2010	31.12.2009
<b>INVESTING ACTIVITIES</b>		
Acquisition and disposals of tangible and intangible fixed assets	-46	-56
Acquisitions and disposals of financial assets	0	3
Dividends received	134	55
<b>Cash flow from investing activities</b>	<b>88</b>	<b>2</b>
<b>FINANCING ACTIVITIES</b>		
Transfer to the Treasury	-5 800	-5 900
<b>Cash flow from financing activities</b>	<b>-5 800</b>	<b>-5 900</b>
<b>Cash flow for the period</b>	<b>-918</b>	<b>-8 521</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>3 141</b>	<b>12 399</b>
Cash flow from operating activities	4 794	-2 623
Cash flow from investing activities	88	2
Cash flow from financing activities	-5 800	-5 900
Exchange rate difference on cash and cash equivalents	-129	-737
<b>Cash and cash equivalents at end of period</b>	<b>2 094</b>	<b>3 141</b>
<b>SPECIFICATION OF CASH AND CASH EQUIVALENTS</b>		
Bank accounts and bank lending denominated in foreign currency, see Note 3	2 094	3 140
Main operations	-	-
Fine-tuning operations	-	-
Marginal lending facility	-	1
<b>Total cash and cash equivalents</b>	<b>2 094</b>	<b>3 141</b>

The cash flow statement shows incoming and outgoing payments 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 operations. 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 participations that are reported under financial assets. Dividends received from holdings of shares and participations are also included.

#### Financing activities

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

## Notes

SEK million. Figures in brackets refer to 2009.

### Note 1 Gold

	31.12.2010	31.12.2009
<b>Quantity</b>		
Troy ounces (million)	4.0421	4.0421
<b>Price</b>		
USD/ounce	1 418.6948	1 096.1990
SEK/USD	6.7201	7.1521
<b>Book value</b>	<b>38 537</b>	<b>31 691</b>

As of 31 December 2010, the Riksbank holds 4 million ounces (troy/oz) of gold (4), which is equivalent to 125.7 tonnes. No gold was sold in 2010.

### Note 2 Receivables from the IMF

	31.12.2010	31.12.2009
Special Drawing Rights	23 671	25 685
<b>Reserve position in the IMF</b>		
Capital contribution (quota)	24 791	26 859
IMF krona account	-19 643	-21 854
PRG-HIPC lending	192	208
Bilateral loans	2 164	-
<b>Total</b>	<b>31 175</b>	<b>30 898</b>

The Riksbank's holding of Special Drawing Rights (SDR) amounts to SDR 2 287 million (2 291). An amount corresponding to the total SDR allocated by the IMF is reported as a liability. See Note 21.

The Riksbank's total capital contribution (quota) to the International Monetary Fund amounts to SDR 2 395.5 million and is booked net of the IMF's account for Swedish kronor under the item 'Reserve position in the IMF'.

The item 'PRG-HIPC' 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 shall be repaid by 1 January 2019.

On 1 April 2010 the Riksbank signed a bilateral loan agreement with the IMF on an SDR amount equivalent to a total of EUR 2 470 million, of which SDR 209 million were outstanding as at 31 December 2010.

At the end of 2010 the Riksbank also had a receivable from the IMF of SDR 12.7 million for funds that the IMF may use for interest and credit 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, in accordance with a proposal from the IMF and after receiving permission from the Riksdag, the Riksbank notified the IMF that it may use SDR 5.1 million of these funds to finance cancellation of Liberia's debt to the IMF. The funds, including interest of SEK 0.1 million, were utilised on 1 February 2010.

### Note 3 Balances with banks and security investments

	31.12.2010	31.12.2009
Bank accounts	156	496
Bank lending	1 938	2 644
Bonds	246 090	254 458
Short-term securities	3 196	13 852
<b>Total</b>	<b>251 380</b>	<b>271 450</b>

Bank deposits and securities are issued in euro, US dollars, Pounds sterling, Australian dollars, Canadian dollars, Norwegian kroner and Japanese yen. The distribution is shown in the table below.

	31.12.2010	31.12.2009
Euro	103 574	138 476
US dollars	112 459	96 317
Pounds sterling	17 388	17 653
Australian dollars	9 150	9 529
Canadian dollars	8 808	9 473
Norwegian kroner	1	2
Japanese yen	0	0
<b>Total</b>	<b>251 380</b>	<b>271 450</b>

Balances with banks and security investments by maturity.

Maturity	Balances with banks	Security investments
Up to 1 month	2 094	-
Over 1 month, up to 3 months	-	-
Over 3 months, up to 1 year	-	49 977
Over 1 year, up to 5 years	-	159 030
More than 5 years	-	40 279
<b>Total</b>	<b>2 094</b>	<b>249 286</b>

As part of its management of the foreign currency reserve, the Riksbank participates in automatic 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 market value of securities on loan as at 31 December 2010 amounted to SEK 94 592 million (26 717).

### Note 4 Main operations

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

### Note 5 Fine-tuning operations

This item is used to report lending aimed at fine-tuning liquidity in the financial system. This lending is usually overnight.

## Note 6 Structural operations

This item is used to report the Riksbank's lending in Swedish kronor to monetary policy counterparties, usually with a longer maturity than main refinancing and fine-tuning operations. The purpose of this lending is either to satisfy the longer-term financing needs of the financial sector or to affect the Riksbank's structural position in relation to the financial sector. These operations are not intended to send monetary policy signals. Alternatively this lending can be at a fixed rate and with up to twelve months maturity, for the purpose of sending monetary policy signals that will contribute to lower interest rates on loans to companies and households. The Riksbank by and large wound up structural lending in 2010. At the close of 2010 lending amounted to SEK 500 million maturing at the beginning of January 2011.

## Note 7 Marginal lending facility

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

## Note 8 Tangible and intangible fixed assets

	31.12.2010	31.12.2009
<b>Land and buildings</b>		
Cost of acquisition, 1 January	375	337
Acquisitions during the year	15	38
Divestments during the year	–	–
<b>Cost of acquisition, 31 December</b>	<b>390</b>	<b>375</b>
Acc. depreciation, 1 January	–143	–134
Depreciation for the year	–9	–9
Divestments during the year	–	–
<b>Acc. depreciation, 31 December</b>	<b>–152</b>	<b>–143</b>
<b>Book value</b>	<b>238</b>	<b>232</b>
<b>Machinery and equipment</b>		
Cost of acquisition, 1 January	517	598
Acquisitions during the year	31	18
Divestments during the year	–14	–99
<b>Cost of acquisition, 31 December</b>	<b>534</b>	<b>517</b>
Acc. depreciation, 1 January	–343	–380
Depreciation for the year	–54	–62
Divestments during the year	14	99
<b>Acc. depreciation, 31 December</b>	<b>–383</b>	<b>–343</b>
<b>Book value</b>	<b>151</b>	<b>174</b>
<b>Total book value</b>	<b>389</b>	<b>406</b>
<b>Tax assessment value</b>		
Buildings	–	–
Land	1	–

The item 'Land and buildings' includes two properties; the head office in Stockholm and the future cash centre in the municipality of Sigtuna. The head office is classified as a special unit and is consequently not taxable. However, tax is payable for the land in Sigtuna for the period until construction starts.

Acquisitions in 2010 include building and construction design for the new cash centre for SEK 22 million (38), IT applications for SEK 11 million (3) and personal computer equipment for SEK 2 million (3).

The item 'Book value, machinery and equipment' includes intangible fixed assets in the form of application systems in an amount of SEK 81 million (97).

## Note 9 Financial assets

Shares and participations	31.12.2010	31.12.2009
<b>Bank for International Settlements</b>	<b>441</b>	<b>441</b>
17 244 shares at a par value of SDR 5 000 of which 25 % are paid up		
<b>European Central Bank</b>	<b>79</b>	<b>79</b>
3.75 % (7 %) of 2.2582 % of total capital subscriptions, EUR 9 112 389.47 (9 106 093.68)		
<b>SWIFT</b>	<b>1</b>	<b>1</b>
10 (10) shares at a par value of EUR 125		
<b>Total</b>	<b>521</b>	<b>521</b>

Central banks in the European Central Bank System (ECBS) that are not part of the euro system are obliged to pay in 3.75 per cent of their capital subscription in the ECB. The subscription paid is to cover costs of participation in the ECBS. The capital subscription is based on the respective country's GDP and number of inhabitants.

As at 29 December 2010 the Riksbank's paid-up subscription amount was adjusted upwards by EUR 6 295.79. This was done because the ECB General Council had decided to raise the initial capital in the ECB by EUR 5 billion. So that the central banks in the ECBS that are not part of the euro system will not be more than marginally affected by this capital increase the ECB General Council decided to reduce the subscription from 7 per cent to 3.75 per cent.

## Note 10 Off-balance sheet instruments

	31.12.2010	31.12.2009
FX swaps, positive value	584	332
FX swaps, negative value	–	–196
<b>Total</b>	<b>584</b>	<b>136</b>

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

The nominal amounts of the derivative contracts, which are reported as memorandum items (see Note 41) are shown below:

	31.12.2010	31.12.2009
FX swaps, positive value	16 945	11 278
FX swaps, negative value	–	7 474
<b>Total</b>	<b>16 945</b>	<b>18 752</b>

**Note 11 Accruals and deferred expenditure**

	31.12.2010	31.12.2009
Receivables from the IMF	18	12
Bank accounts and bank lending	0	0
Bonds	3 436	3 999
Derivative instrument	55	61
Structural operations	4	526
Other	9	10
<b>Total</b>	<b>3 522</b>	<b>4 608</b>

**Note 12 Other assets**

	31.12.2010	31.12.2009
Staff loans	278	290
Accounts receivable	2	3
The claim on Crane & Co. Inc.	22	21
VAT recoverable	6	6
Balances with banks	10	6
Other	0	0
<b>Total</b>	<b>318</b>	<b>326</b>

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

**Note 13 Banknotes**

Value of banknotes in circulation, by denomination:

	31.12.2010	31.12.2009
1 000 kronor	28 565	31 367
500 kronor	58 113	59 447
100 kronor	9 414	9 866
50 kronor	1 244	1 253
20 kronor	1 738	1 759
Commemorative banknotes	2	2
Invalid banknotes after 2005	826	896
<b>Total</b>	<b>99 902</b>	<b>104 590</b>

The item 'Invalid banknotes after 2005' includes banknotes that ceased to be legal tender at the end of 2005. Notes that have been invalid for more than ten years are written off from the liability for banknotes in circulation and carried in profit and loss less a small amount that is recorded under 'Provisions'. The Riksbank may redeem invalid banknotes if there are particular grounds.

**Note 14 Coins**

Value of coins in circulation, by denomination:

	31.12.2010	31.12.2009
10 kronor	2 543	2 548
5 kronor	1 304	1 313
2 kronor	8	8
1 krona	1 340	1 349
50 öre	166	197
Commemorative coins	138	658
<b>Total</b>	<b>5 499</b>	<b>6 073</b>

In accordance with the amended accounting policy, as at 31 December 2010 the Riksbank wrote off the liability for commemorative coins in circulation for issues older than ten years, SEK 536 million and recorded this under 'Other income'. See Note 35.

**Note 15 Deposit facility**

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

**Note 16 Fine-tuning operations**

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

**Note 17 Debt certificates issued**

This item is used to report the Riksbank's issuance of debt certificates aimed at absorbing liquidity from the financial system. These deposits are made at the Riksbank's most important policy rate, the repo rate, as a rule with a maturity of one week.

**Note 18 Liabilities to residents outside Sweden denominated in Swedish kronor**

Accounts in Swedish kronor that the Riksbank holds on behalf of other central banks and international organisations are reported here.

**Note 19 Liabilities to residents in Sweden denominated in foreign currency**

As of June 2009 deposits of foreign currency from the Swedish National Debt Office is reported under this item. The deposits were for the purpose of strengthening the foreign currency reserve. The distribution of foreign currency deposits is shown in the following table.

	31.12.2010	31.12.2009
Euro	30 905	50 539
US dollars	52 869	42 005
<b>Total</b>	<b>83 774</b>	<b>92 544</b>

## Note 20 Liabilities to residents outside Sweden denominated in foreign currency

Amounts corresponding to purchase amounts in foreign currency for deposit repos are recorded under this item.

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

	31.12.2010	31.12.2009
Australian dollars	431	–
<b>Total</b>	<b>431</b>	<b>–</b>

## Note 21 Counterpart of Special Drawing Rights allocated by the IMF

The Riksbank's liability corresponding to the Special Drawing Rights (SDR) originally allocated by the IMF is reported here. The total allocation is SDR 2 249 million (2 249). The current holding is SDR 2 287 million (2 291) and is reported under the item 'Receivables from the IMF'. See Note 2.

## Note 22 Derivative instruments

	31.12.2010	31.12.2009
Currency forward contracts, negative value	–	3
<b>Total</b>	<b>–</b>	<b>3</b>

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

The nominal amounts of the derivative contracts, which are reported as memorandum items (see Note 41) are shown in the table below.

	31.12.2010	31.12.2009
Currency forward contracts, negative value	–	1 138
<b>Total</b>	<b>–</b>	<b>1 138</b>

## Note 23 Accrued expenses and deferred income

	31.12.2010	31.12.2009
Fine-tuning operations	0	1
Debt certificates issued	–	11
Deposits, Swedish National Debt Office	413	522
Deposit repos	0	–
Counterpart of Special Drawing Rights	15	10
Övrigt	60	62
<b>Total</b>	<b>488</b>	<b>606</b>

## Note 24 Other liabilities

	31.12.2010	31.12.2009
Accounts payable – trade	26	32
Other	21	21
<b>Total</b>	<b>47</b>	<b>53</b>

## Note 25 Provisions

	31.12.2010	31.12.2009
Pension provision	116	133
Invalid banknotes	57	65
Lease Malmö office	44	47
Job Security Foundation	3	6
<b>Total</b>	<b>220</b>	<b>251</b>

The pension provision has been calculated by the National Government Employee Pensions Board (SPV). SEK 106 million (119) refers to PA 91 pensioners with a date of retirement prior to 2003, and SEK 10 million (14) refers to persons who have been granted a partial pension from 2003 onwards or pension compensation prior to the age of 65. As at 31 December 2002 the Riksbank redeemed its pension provision for those persons who on that date were employed by or were entitled to annuity from the Riksbank.

The item 'Provisions' also includes SEK 57 million (65) for the estimated future costs of banknotes that ceased to be legal tender but that the Riksbank still may redeem. In addition, the item includes SEK 44 million (47) for estimated future lease costs for the office in Malmö that was wound up in 2006. On 29 December 2010 the Riksbank entered into an agreement that the tenancy agreement will be terminated in 2011. 'Job Security Foundation' refers to provision for professional development and competence exchange in accordance with an agreement with the Job Security Foundation.

## Note 26 Revaluation accounts

	31.12.2010	31.12.2009
Price effect	4 738	5 597
Exchange rate effect	3 624	12 327
Gold value effect	26 740	19 894
<b>Total</b>	<b>35 102</b>	<b>37 818</b>

With effect from 2004, unrealised gains and losses are reported in special revaluation accounts, which consist of the difference between the cost of acquisition value and the market value. At the changeover in 2004, it was decided that the cost of acquisition would correspond to market value 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.

	31.12.2010	31.12.2009
Euro	–	5 765
US dollars	–	1 263
Pounds sterling	–	170
Australian dollars	1 800	1 472
Canadian dollars	1 040	1 234
Special Drawing Rights	46	494
Norwegian kroner	738	1 929
<b>Total</b>	<b>3 624</b>	<b>12 327</b>

**Note 27 Capital**

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

**Note 28 Reserves**

	31.12.2010	31.12.2009
Reserve fund	500	500
Contingency fund	41 598	36 480
Balancing fund	29 331	26 045
<b>Total</b>	<b>71 429</b>	<b>63 025</b>

The Sveriges Riksbank Act states that the Riksbank shall have a reserve fund amounting to SEK 500 million and a contingency fund.

The contingency fund and the balancing fund have been used since 1988, according to guidelines for the Riksbank's allocation of profit adopted that year. The contingency fund 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 capitalised in the balance sheet in 1994 at cost of acquisition less depreciation. In 2010 a reposting was made of SEK 0 million (772) and SEK 3 million (2) respectively from the sub-items 'Write-up of gold reserve' and 'Fixed assets' to 'Allocation of profit', due to the year's divestments and depreciation of the written-up assets. The value of the BIS shares was written up in 1996 to correspond to the market value of the gold used as payment for the share allocation in that year.

The above-mentioned allocations and write-ups are shown in the table below:

	31.12.2010	31.12.2009
<b>Allocation of profit:</b>		
Exchange rate effect	10 854	8 057
Gold value effect	7 356	5 764
Other allocation of profit	14 445	13 713
<b>Write-up of assets:</b>		
Gold reserve	8 604	8 604
Fixed assets	104	107
BIS shares	235	235
<b>Total</b>	<b>41 598</b>	<b>36 480</b>

The change in the items 'Capital', 'Reserves' and 'Profit for the year' is explained in the table below.

	Capital	Reserves	Profit for the year
<b>Balance, 31 December 2008</b>	<b>1 000</b>	<b>57 742</b>	<b>11 183</b>
Transfer to the Treasury	-	-	-5 900
Transfer to/from:			
Balancing fund	-	2 881	-2 881
Contingency fund	-	2 402	-2 402
Profit for the year	-	-	14 204
<b>Balance, 31 December 2009</b>	<b>1 000</b>	<b>63 025</b>	<b>14 204</b>
Transfer to the Treasury	-	-	-5 800
Transfer to/from:			
Balancing fund	-	3 286	-3 286
Contingency fund	-	5 118	-5 118
Profit for the year	-	-	548
<b>Balance, 31 December 2010</b>	<b>1 000</b>	<b>71 429</b>	<b>548</b>

**Note 29 Interest income**

	2010	2009
<b>From foreign assets:</b>		
Receivables from the IMF	87	44
Bank accounts	32	4
Bank lending	45	1 165
Bonds	6 139	6 849
Short-term securities	34	86
Derivative instruments	309	-
Securities lending programmes	47	17
	<b>6 693</b>	<b>8 165</b>
<b>From domestic assets:</b>		
Structural operations	1 020	2 802
Marginal lending facility	0	0
Other lending	-	25
Staff loans	4	5
	<b>1 024</b>	<b>2 832</b>
<b>Total</b>	<b>7 717</b>	<b>10 997</b>

**Note 30 Interest expense**

	2010	2009
<b>From foreign liabilities:</b>		
Deposits, Swedish National Debt Office	-1 286	-597
Deposit repos	-86	-177
Counterpart of Special Drawing Rights	-71	-31
Derivative instrument	-1	-611
	<b>-1 444</b>	<b>-1 416</b>
<b>From domestic liabilities:</b>		
Deposit facility	-	-0
Fine-tuning operations	-187	-698
Debt certificates issued	-493	-651
Bank accounts	-	-2
Cash depots	-11	-29
	<b>-691</b>	<b>-1 380</b>
<b>Total</b>	<b>-2 135</b>	<b>-2 796</b>

**Note 31 Net result of financial transactions**

	2010	2009
Price effect	1 965	2 325
Exchange rate effect	-7 088	2 797
Gold value effect	-	1 592
<b>Total</b>	<b>-5 123</b>	<b>6 714</b>

The price effect consists of realised gains and losses on securities of SEK 2 540 million (2 706) and unrealised losses on securities of SEK -575 million (-381), which have been transferred to profit and loss due to write-down of the securities holding.

The exchange rate effect includes realised exchange rate gains and losses of SEK 593 million (2 797) and unrealised exchange rate losses of SEK -7 681 million that were recognised in profit and loss due to write-down of the foreign currency holding (-).

**Note 32 Fees and commission income**

The item includes annual and transaction charges for the RIX system of SEK 67 million (58).

**Note 33 Fees and commission expenses**

The item mainly consists of custody fees and transaction costs for management of the foreign currency reserve, which were higher in 2009 due to the Riksbank's liquidity assistance measures.

**Note 34 Dividends received**

In 2010 the Riksbank received dividend from BIS of SEK 134 million (55). The increase compared with the previous year consists of an extra dividend of SEK 78 million.

**Note 35 Other income**

	31.12.2010	31.12.2009
Unredeemed cash received	3	4
Reimbursement for discoloured banknotes etc.	4	5
Sida (Swedish International Development Cooperation Agency)	1	3
Commemorative coins written off	536	-
Repayment SPV	58	-
Other	1	4
<b>Total</b>	<b>603</b>	<b>16</b>

In accordance with the amended accounting policy, as at 31 December 2010 the Riksbank wrote off the liability for commemorative coins in circulation for issues older than ten years by SEK 536 million. This was recorded under 'Other income'.

The income from Sida refers to remuneration for technical assistance to other central banks in some developing countries.

The item 'Repayment SPV' refers to a repayment from the National Government Employee Pensions Board made on final settlement of the single premium paid by the Riksbank for redemption of its pension obligation for the individuals who on

31 December 2002 were either employed or had the right to an annuity. The final pension obligation that was established in October 2010 was SEK 58 million lower than the preliminary premium paid in 2003.

**Note 36 Staff costs**

	2010	2009
Salaries and benefits	-211	-199
Salary recorded as assets	3	1
Social security contributions	-68	-65
	<b>-276</b>	<b>-263</b>
Pension premiums	-40	-34
Pension payments	-20	-19
Change in pension provision	21	2
Special payroll tax	-14	-13
	<b>-53</b>	<b>-64</b>
Training	-6	-5
Staff representation	-3	-3
Other	-7	-7
	<b>-16</b>	<b>-15</b>
<b>Total</b>	<b>-345</b>	<b>-342</b>

Pension premiums were paid in accordance with 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 in 2010 amounted to SEK 11.9 million, broken down as follows.

	2010	2009
Stefan Ingves	1.8	1.9
Svante Öberg	2.2	2.0
Karolina Ekholm	2.0	1.5
Lars Nyberg	2.1	2.0
Lars E.O. Svensson	1.8	2.2
Barbro Wickman-Parak	2.0	1.9
<b>Total</b>	<b>11.9</b>	<b>11.5</b>

In addition, the Governor of the Riksbank received a board fee in 2010 of SEK 0.7 million (0.7) from the Bank for International Settlements (BIS).

Salary and benefits to Stefan Ingves and Lars E.O. Svensson are lower in 2010 compared with 2009 due to an adjustment for BIS fees in 2009 and a change in holiday pay liability respectively.

The General Council has decided that during the statutory qualification period of a maximum of one year after the end of employment, members of the Executive Board shall receive a full salary without being required to perform any duties. However, 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 application of the Ordinance on Pensions for Senior Government Officials (1995:1038) shall apply to members of the Executive Board of the Riksbank. Under this regulation, however, earlier provisions from 1991 shall apply to persons covered by the superseded ordinance on appointment pensions.

The Ordinance on Pensions for Senior Government Officials (1995:1038) was superseded on 1 April 2003 by the Ordinance on Severance Benefits for Certain Employees employed as Senior Government Officials (2003:55). Under this ordinance the new provisions are to be applied from 1 January 2003. The provisions of the Ordinance on Pensions for Senior Government Officials are, however, still applicable to any person who on 31 December 2002 held a senior position as defined in the ordinance, if that person continues employment without interruption. Furthermore, the provisions in the earlier superseded Ordinance on Appointment Pensions, etc. still apply to those previously covered by these provisions.

This implies the following: For Svante Öberg the older Ordinance on Appointment Pensions (1991:1160) applies. For Lars Nyberg the older Ordinance on Pensions for Senior Government Officials (1995:1038) is applicable. For Karolina Ekholm, Barbro Wickman-Parak and Lars E.O. Svensson the Ordinance on Severance Benefits for Certain Employees Employed as Senior Government Officials (2003:55) is applicable. For Stefan Ingves the same ordinance is applicable with the exception of the reduction of the income guarantee for pension from the IMF.

Furthermore, under 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 only when they have reached the age of 65. The pension is calculated on the basis of the board fees paid, amounting to 1.82 per cent of these fees.

The average number of employees (full-time equivalents, FTEs) in 2010 was 350 (346), of which 150 (149) were women and 200 (197) men. The number of FTEs at the end of the year was 339 (351). Total sick leave in 2010 was 1.7 per cent (2.5) of employees' total working hours. Sick leave over a continuous period of 60 days or more in 2010 was 28.4 per cent (50.7) of total sick leave. Women's sick leave in relation to total regular working hours for women amounted in 2010 to 2.4 per cent (2.8), while the corresponding figure for men in 2010 was 1.1 per cent (2.2).

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

	2010	2009
29 years or younger	1.2 %	0.5 %
30–49 years	1.2 %	1.6 %
50 years or older	2.5 %	4.0 %

### Note 37 Administration expenses

	2010	2009
Information, hospitality	-9	-11
Transport, travel	-12	-15
Consultancy assignments	-37	-49
Other external services	-62	-69
IT operation	-56	-57
Economics prize	-16	-16
Office and property maintenance	-42	-45
Other	-6	-5
<b>Total</b>	<b>-240</b>	<b>-267</b>

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

Costs for hospitality amounted to SEK 2.7 million (3.2).

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

Costs for consultancy assignments amounted to SEK 37 million (49). This includes items such as IT consultants for SEK 23 million (31), including SEK 2 million (4) 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 45 million (49), referring mainly to remuneration to Statistics Sweden for production of balance of payment statistics and financial market statistics. In addition there are audit fees to the Swedish National Audit Office and the General Council's auditors of SEK 1 million (3).

The 'IT operations' item includes licensing expenses of SEK 34 million (38).

The 'Economics prize' item includes the prize sum of SEK 10 million (10) and administration costs for the prize of SEK 6.5 million (6.5).

The largest single items in the cost group 'Office and property maintenance' consist of refurbishment and maintenance of the Riksbank's premises, SEK 9 million (9), and SEK 13 million (11) for rent of premises.

**Note 38 Depreciation/amortisation of tangible and intangible fixed assets**

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

**Note 39 Banknote and coin expenses**

Of the total cost for banknotes and coins of SEK 56 million (117), SEK 36 million (80) refers to the purchase of circulation banknotes, SEK 2 million (37) to the purchase of circulation coins and SEK 18 million (0) to the purchase of commemorative coins.

**Note 40 Other expenses**

The item 'Other expenses' refers to non-recurring expenses.

**Note 41 Memorandum items***Pledged assets*

At the close of 2010 securities with a market value equivalent to SEK 426 million (–) had been pledged in connection with foreign securities repos.

*Contingent liabilities*

The outstanding claims for compensation at the end of 2010 amounted to SEK 3 million (3).

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

An investigation has shown that no commitments under this agreement exist any longer.

Commitment 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 commitment amounted to SEK 16.5 million in 2010 (16.5).

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

*Contingent assets*

At the end of 2010 the Riksbank had no outstanding compensation claims (–).

*Lending agreements*

A swap agreement with the Latvian central bank Latvijas Banka expired on 22 March 2010 without being extended. As at 31 December 2009 the Riksbank had a commitment to lend EUR 500 million, which was equivalent to SEK 5 125 million.

Commitment to buy or sell Special Drawing Rights (SDR) against payment in US dollars or euros within a band of 50 to 150 per cent of the Riksbank's total net allocation of SDRs that at the end of 2010 amounted to SDR 2 249 million, equivalent to SEK 23 275 million (25 216).

Agreements under GAB (General Arrangements to Borrow) and NAB (New Arrangements to Borrow) to provide the IMF with a credit facility of up to SDR 850 million (850), which is equivalent to SEK 8 797 million (9 350). On 20 January 2011 the Riksdag decided, after a submission from the Riksbank, to allow the Riksbank to increase its commitments under GAB and NAB to a maximum of SDR 4 440 million, equivalent to SEK 45 950 million.

Bilateral loan agreement with the IMF to lend SDR amounts equivalent to a total of EUR 2 470 million, equivalent to SEK 22 256 million. At the close of 2010 SDR 209 million had been loaned out, equivalent to SEK 2 164 million, within the framework of this agreement. See Note 2.

Commitment to pay the BIS, three months after any demand, the remaining 75 per cent of the nominal amount of the Riksbank's shareholding in BIS. This commitment corresponded to SDR 65 million (65), equivalent to SEK 673 million (729) at the end of 2009.

*Deposit agreements*

Swap agreement with the US central bank, the Federal Reserve, expired on 1 February 2010 without being extended. The Riksbank, as at 31 December 2009 had the opportunity to borrow up to USD 30 000 million, equivalent to SEK 214 563 million, in exchange for Swedish kronor.

Agreement with the BIS, implying that the Riksbank has the opportunity to borrow foreign currency.

Agreement with the ECB, implying that the Riksbank has the opportunity to borrow euros in exchange for Swedish kronor. No amount is specified in the agreement.

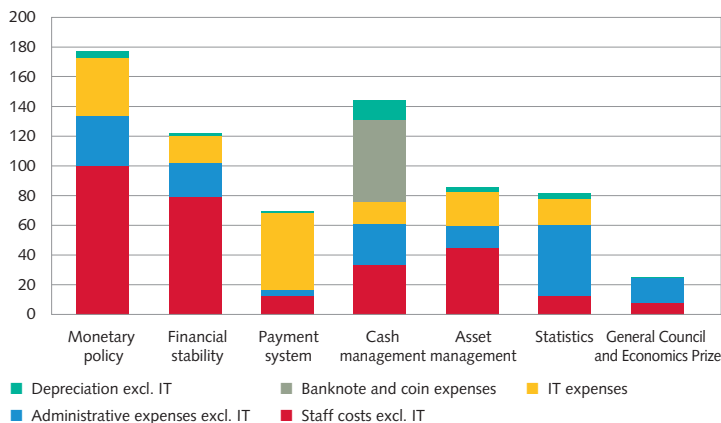
## ■ Profit and loss account and balance sheet by function

The table below shows the Riksbank's net income and expenses by function.

Function	2010			2009		
	Net income	Expenses	Profit/loss	Net income	Expenses	Profit/loss
SEK million						
Monetary policy	2	-175	-173	2	-184	-182
Financial stability	137	-124	13	60	-130	-70
Payment system	67	-68	-1	60	-67	-7
Cash management	532	-144	388	-17	-216	-233
Asset management	454	-86	368	14 896	-97	14 799
Statistics	-	-81	-81	-	-81	-81
General Council and Economics Prize	60	-26	34	-	-22	-22
<b>Total</b>	<b>1 252</b>	<b>-704</b>	<b>548</b>	<b>15 001</b>	<b>-797</b>	<b>14 204</b>

Chart 24

Allocation by nature of expense per function, 2010, SEK million



Source: The Riksbank.

The breakdown should reflect as closely as possible the actual use of resources for each function. The principle used is for expenses and income to be allocated as far as possible directly to the respective function without use of any cost allocation key.

The allocation model is based on the format of the profit and loss account and the balance sheet, where the Riksbank's administrative expenses for 2010 amount to SEK 704 million (797) and assets and liabilities to SEK 326 926 million (708 838).

As of 2010 the Other international work function is reported as part of the Financial stability function.

### Allocation of costs

#### Staff costs, excluding IT personnel

The actual payroll expense has been used when allocating staff costs for employees directly involved in a function. The payroll expenses for employees in support functions have been allocated using a cost allocation key. The most common key is the number of directly involved employees in relation to the total number of directly involved employees in all functions. Altogether about 190 employees, or 55 per cent of the total of 340, are directly involved in one of the functions. The other 150 employees are in support functions, mainly IT, transport and security surveillance, property maintenance and internal services.

#### Administrative expenses, excluding IT expenses

The Riksbank's process accounting means that administrative expenses are directly allocated by function at the time of registration of invoices.

A large part of the Riksbank's costs are, however, common expenses, such as costs of premises, property maintenance, security and surveillance. These cannot be allocated directly but have been allocated using predefined keys, most often consisting of the number of employees directly involved per function in relation to the total number of directly involved employees in all functions.

#### Depreciation, excluding IT-related investments

Depreciation is directly allocated to the function which is supported by the respective facility or allocated on the basis of the number of directly involved employees per function in relation to the total number of directly involved employees.

**Banknote and coin expenses**

Costs for purchasing banknotes and coins amounted to SEK 56 million (117) in 2010. The costs are 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. Telephony 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 logical servers per system.

**Allocation of net income**

Allocation of net income by function has been done from an operational perspective. Income has been allocated to the function with the greatest potential to influence and manage it. Consequently, the fact that seignorage derives from cash management has not been taken into consideration. Instead seignorage income has been allocated to asset management. Seignorage for 2010 is estimated to be SEK 3 495 million (5 793).

The net income in the Financial stability function mainly consists of dividend from the Riksbank's holding of BIS shares.

Net income from asset management of SEK 454 million, adjusted for price, exchange rate and gold value effects of SEK -2 716 million recognised in the balance sheet, corresponding to the year's change in the revaluation account (see Note 26), constitutes the total return from the Riksbank's asset management in 2010 of SEK -2 262 million (see Table 5 in the 'Asset management' section of the Administration Report).

**Allocation of assets and liabilities**

The table below shows the Riksbank's assets and liabilities by function in millions of kronor.

Function SEK million	31.12.2010		31.12.2009	
	Assets	Liabilities	Assets	Liabilities
Financial stability	441	-	441	-
Cash management	-	105 401	-	110 663
Asset management	325 689	113 005	707 575	481 637
Unallocated	796	108 520	822	116 538
<b>Total</b>	<b>326 926</b>	<b>326 926</b>	<b>708 838</b>	<b>708 838</b>

The assets in the Financial stability function consist of the shareholding in BIS. The unallocated assets item mainly contains tangible and intangible fixed assets and other assets. The unallocated liabilities item mainly contains equity, revaluation account and result for the year.

**The Riksbank's extraordinary measures**

As a result of the financial crisis the Riksbank took a number of extraordinary measures. The net interest income and outstanding loan amounts for these measures are shown below.

SEK million	Net interest income Jan-Dec 10	Net interest income Jan-Dec 09	Loan amount 31.12.2010	Loan amount 31.12.2009
<b>Lending in Swedish kronor to Swedish banks</b>				
Structural operations	1 020	2 802	500	368 801
Fine-tuning operations	-187	-698	-5 097	-171 107
Debt certificates issued	-493	-651	-	-192 222
	<b>340</b>	<b>1 453</b>	<b>-4 597</b>	<b>5 472</b>
<b>Lending in US dollars to Swedish banks</b>				
Claims on residents in Sweden denominated in foreign currency	-	1 129	-	-
Liabilities to residents outside Sweden denominated in Swedish kronor <sup>1</sup>	-	-814	-	-
Liabilities to residents outside Sweden denominated in foreign currency	-	-141	-	-
Liabilities to residents in Sweden denominated in foreign currency <sup>6</sup>	-	-18	-	-
	-	156	-	-
<b>Swap lending to central banks</b>				
Bank balances and securities <sup>2</sup>	-	5	-	-
<b>Lending to Swedish banks on special terms</b>				
Other lending <sup>3</sup>	-	23	-	-
<b>Accrued interest on items above</b>				
			4	514
<b>Total excluding strengthening of foreign currency reserve</b>	<b>340</b>	<b>1 637</b>	<b>-4 593</b>	<b>5 986</b>
<b>Strengthening of foreign currency reserve</b>				
Bank balances and securities <sup>4</sup>	995	481	84 089	93 166
Liabilities to residents outside Sweden denominated in Swedish kronor <sup>5</sup>	-	-101	-	-
Liabilities to residents in Sweden denominated in foreign currency <sup>6</sup>	-1 286	-579	-83 774	-92 544
Liabilities to residents outside Sweden denominated in Swedish kronor	-50	-	-	-
Accrued interest			-413	-523
	<b>-341</b>	<b>-199</b>	<b>-98</b>	<b>99</b>
<b>Total extraordinary measures</b>	<b>-1</b>	<b>1 438</b>	<b>-4 691</b>	<b>6 085</b>

<sup>1</sup> Federal Reserve account in Swedish kronor.

<sup>2</sup> Iceland, Latvia.

<sup>3</sup> Kaupthing, Carnegie.

<sup>4</sup> Contingency portfolio (market value).

<sup>5</sup> ECB's account in Swedish kronor.

<sup>6</sup> Swedish National Debt Office.

## ■ Five-year overview

The five-year overview presents the balance sheet and profit and loss account restated in accordance with current accounting policies.

In this overview the items 'Profit for the year', 'Net result of financial operations' and 'Revaluation account' have been adjusted by SEK 1 733 million for 2006 due to the change in the accounting policies in 2008 for the IMF's balance denominated in Swedish kronor.

SEK million	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
<b>Balance sheet</b>					
<b>ASSETS</b>					
Gold	38 537	31 691	29 976	25 827	22 222
Claims on residents outside Sweden denominated in foreign currency	282 555	302 348	200 448	172 556	167 184
Receivables from the IMF	31 175	30 898	6 261	4 614	4 892
Balances with banks and security investments	251 380	271 450	194 187	167 942	162 292
Claims on residents in Sweden denominated in foreign currency	–	–	196 124	–	–
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	500	368 802	266 462	9 129	7 088
Main operations	–	–	–	7 199	6 700
Fine-tuning operations	–	–	–	1 787	267
Structural operations	500	368 801	264 800	–	–
Marginal lending facility	0	1	0	143	121
Other lending	–	–	1 662	–	–
Other assets	5 334	5 997	7 201	4 414	4 191
Tangible and intangible fixed assets	389	406	421	452	483
Financial assets	521	521	524	524	594
Derivative instrument	584	136	8	497	379
Prepaid expense and accrued income	3 522	4 608	5 931	2 612	2 429
Other assets	318	326	317	329	306
<b>Total assets</b>	<b>326 926</b>	<b>708 838</b>	<b>700 211</b>	<b>211 926</b>	<b>200 685</b>

**Balance sheet**

SEK million	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
<b>LIABILITIES AND EQUITY</b>					
Banknotes and coins in circulation	105 401	110 663	112 273	114 324	112 380
Banknotes	99 902	104 590	106 266	108 517	106 862
Coins	5 499	6 073	6 007	5 807	5 518
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	5 142	171 163	206 696	143	121
Deposit facility	45	56	32	143	121
Fine-tuning operations	5 097	171 107	206 664	-	-
Debt certificates issued	-	192 222	48 946	-	-
Liabilities to residents in Sweden denominated in Swedish kronor	-	-	104	-	-
Liabilities to residents outside Sweden denominated in Swedish kronor	69	70	189 248	82	66
Liabilities to residents in Sweden denominated in foreign currency	83 774	92 544	1 862	-	-
Liabilities to residents outside Sweden denominated in foreign currency	431	-	8 688	12 047	13 906
Counterpart of SDRs allocated by the IMF	23 275	25 216	2 979	2 517	2 540
Other liabilities	535	662	9 998	184	262
Derivative instruments	-	3	9 254	17	6
Accrued expenses and prepaid income	488	606	697	114	188
Other liabilities	47	53	47	53	68
Provisions	220	251	264	206	276
Revaluation accounts	35 102	37 818	49 228	20 081	10 221
Own capital	72 429	64 025	58 742	58 247	54 769
Capital	1 000	1 000	1 000	1 000	1 000
Reserves	71 429	63 025	57 742	57 247	53 769
Profit for the year	548	14 204	11 183	4 095	6 144
<b>Total liabilities and equity</b>	<b>326 926</b>	<b>708 838</b>	<b>700 211</b>	<b>211 926</b>	<b>200 685</b>

**Profit and loss account**

SEK million	2010	2009	2008	2007	2006
Interest income	7 717	10 997	10 610	7 566	6 386
Interest expense	-2 135	-2 796	-2 600	-1 089	-826
Net result of financial transactions	-5 123	6 714	3 051	-1 722	1 025
Fee and commission income	67	58	43	43	37
Fee and commission expense	-11	-43	-8	-10	-9
Dividends received	134	55	45	131	45
Other income	603	16	824	33	190
<b>Total net income</b>	<b>1 252</b>	<b>15 001</b>	<b>11 965</b>	<b>4 952</b>	<b>6 848</b>
Staff costs	-345	-342	-337	-329	-316
Administration expenses	-240	-267	-264	-237	-223
Depreciation/amortisation of tangible and intangible fixed assets	-63	-71	-68	-76	-100
Banknote and coin expenses	-56	-117	-113	-154	-65
Other expenses	-	-	-	-61	-
<b>Total expenses</b>	<b>-704</b>	<b>-797</b>	<b>-782</b>	<b>-857</b>	<b>-704</b>
<b>Profit for the year</b>	<b>548</b>	<b>14 204</b>	<b>11 183</b>	<b>4 095</b>	<b>6 144</b>

Stockholm, 10 February 2011



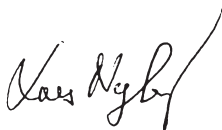
Stefan Ingves  
Governor



Svante Öberg  
First Deputy Governor



Karolina Ekholm  
Deputy Governor



Lars Nyberg  
Deputy Governor



Lars E.O. Svensson  
Deputy Governor



Barbro Wickman-Parak  
Deputy Governor



## ■ Audit report for Sveriges Riksbank

### Report on the annual report

The Swedish National Audit Office has audited the annual report for Sveriges Riksbank for 2010, dated 10 February 2011.

### Responsibility of the Executive Board for the annual report

The Executive Board is responsible for preparing an annual report that gives a true and fair view in accordance with the Sveriges Riksbank Act (1988:1385) and in accordance with the rules for bookkeeping and annual accounts adopted by the Executive Board. The Executive Board is also responsible for the internal controls they deem necessary in order to prepare an annual report that is free from material misstatement, whether due to fraud or error.

### Responsibility of the auditor

The responsibility of the Swedish National Audit Office is to express an opinion on the annual report based on its audit. The Swedish National Audit Office conducted its audit in accordance with generally accepted auditing standards. Those standards require that the Swedish National Audit Office complies with professional ethical requirements and plans and performs the audit to obtain reasonable assurance whether the annual report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and other disclosures in the annual report and about whether the Executive Board has complied with applicable rules and regulations. The auditor selects the procedures to be performed, including the assessment of the risks of material misstatement in the annual report, whether due to fraud or error. In making those risk assessments the auditor considers internal controls relevant to the Riksbank's preparation and fair presentation of the annual report. The purpose is to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Riksbank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Executive Board, as well as evaluating the overall presentation of the annual report.

The Swedish National Audit Office believes that the audit evidence it has obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In the opinion of the Swedish National Audit Office the annual report in all material respects gives a true and fair view of the financial position of the Riksbank as at 31 December 2010 and of the results and funding of its operations for the year in accordance with the Sveriges Riksbank Act (1988:1385) and in accordance with the rules for bookkeeping and annual accounts adopted by the Executive Board.

The Swedish National Audit Office recommends the Riksdag to adopt the balance sheet and the profit and loss account.

### Report on other requirements in accordance with laws and other statutes

In addition to the annual report the Swedish National Audit Office shall also express an opinion on the administration of the General Council and the Executive Board of Sveriges Riksbank for 2010.

### Responsibility of the General Council and the Executive Board and of the auditor

The General Council and the Executive Board are responsible for the administration under the Sveriges Riksbank Act (1988:1385). The responsibility of the Swedish National Audit Office is to express an opinion with reasonable assurance based on its audit. The Swedish National Audit Office conducted its audit in accordance with generally accepted auditing standards in Sweden.

As a basis for the Swedish National Audit Office's opinion concerning discharge from liability the Swedish National Audit Office has examined significant decisions, actions taken and circumstances of the Riksbank in order to be able to determine the liability, if any, to the Riksbank of any member of the General Council or Executive Board. The Swedish National Audit Office also examined whether any member of the General Council or the Executive Board has in any other way acted in contravention of the Sveriges Riksbank Act (1988:1385).

The Swedish National Audit Office believes that the audit evidence it has obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

The Swedish National Audit Office recommends to the Riksdag that the General Council of the Riksbank be discharged from liability for its activities and that the Executive Board be discharged from liability for its administration of the Riksbank in 2010.

The auditor in charge, Staffan Nyström, made the decision on this matter. Audit director Anders Herjevik has presented the audit report.

*Stockholm, 11 February 2011*

*Staffan Nyström*

*Anders Herjevik*



## ■ Consultation work of the Riksbank

Every year the Riksbank responds to a large number of consultation documents. The heads of department are responsible for handling consultation requests within the department's area of responsibility. The responsibility of the head of department includes providing background information for assessing whether a consultation response should be decided by the Executive Board or the head of department. If the response is to be decided by the Executive Board this responsibility also includes presenting a draft consultation response to the Executive Board. Responsibility for overall coordination and administration of consultation work lies with the General Secretariat.

In 2010 the Riksbank submitted consultation responses for example on proposed measures to strengthen stability in the financial system and on consumer protection and supervision in the financial area. The Riksbank also dealt with proposals concerning Finansinspektionen's regulations and new Instructions for the Riksdag Administration. The Executive Board submitted comments on the surplus target in public finances and on a scrutiny matter in the Committee on the Constitution.

The Riksbank submitted the following consultation responses in 2010. Unless otherwise stated, decisions were taken by the head of the department concerned.

### Riksdag Administration

**23.8.2010** Report: New Instructions for the Riksdag Administration (2009/10:URF1)

### Committee on the Constitution

**21.4.2010** Scrutiny matter 33: The Riksbank's independence and measures taken by Minister Anders Borg. A decision on this matter was taken by the Executive Board of the Riksbank.

### Ministry of Finance

**17.12.2010** Amended capital adequacy rules (Ds 2010:)

**14.10.2010** Proposal for guidelines regarding the management of the central government debt 2011–2013

**14.10.2010** Transposition of the new E-Money Directive (Ds 2010:27)

**6.10.2010** Memorandum: Change of coverage amount for the deposit guarantee scheme

**23.8.2010** Ministry of Finance memorandum: Better conditions for international supervision

**20.8.2010** Modernised rules for settlement systems and financial collateral (Ds 2010:12)

**27.5.2010** Report: A reformed Budget Act (SOU 2010:18)

**29.4.2010** Examination of internal models to calculate risk-sensitive capital requirement for insurance companies (draft proposal to the Council on Legislation)

**16.3.2010** Report: Compulsory surplus target. A decision on this matter was taken by the Executive Board of the Riksbank.

**16.3.2010** Evaluation of the surplus target (Ds 2010:4). A decision on this matter was taken by the Executive Board of the Riksbank.

**15.3.2010** Credit rating agencies (Ds 2010:7)

**26.2.2010** Proposal for a Council Regulation amending Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the excessive deficit procedure

**28.1.2010** A new Insurance Business Act (Ds 2009:55)

**14.1.2010** Draft Government Bill: Extension of temporary tax deferment

### Finansinspektionen (Swedish Financial Supervisory Authority)

**21.12.2010** Proposed regulations on remuneration systems etc.

**29.10.2010** Proposed amendments to Finansinspektionen's regulations and general guidelines on capital adequacy and large exposures

**11.10.2010** Proposed regulations and general guidelines on preview of internal models for calculating solvency capital requirements

**26.8.2010** Proposed amendments to Finansinspektionen's regulations and general guidelines on capital adequacy and large exposures

**20.8.2010** Finansinspektionen's proposed new regulations on management of liquidity risks for credit institutions and securities companies

**10.06.2010** Proposed regulations and general guidelines on payment institutions and registered payment service providers

**9.6.2010** Finansinspektionen's general guidelines on restriction of credit against collateral in the form of residential property

### Ministry of Defence

**25.5.2010** "The Rakel system, now and in the future – Communication, coordination and interoperability", final report from the Rakel Working Group

### Ministry of Justice

**30.11.2010** Green paper: Audit Policy: Lessons from the Crisis

**18.6.2010** Ministry Memorandum: More expedient administrative procedure (Ds 2010:17)

**29.4.2010** Draft proposal to the Council on Legislation: Better availability of debt relief procedures

**26.2.2010** New Consumer Credit Act (Ds 2009:67)

### Swedish Civil Contingencies Agency

**26.5.2010** Swedish Civil Contingencies Agency report: Accidents and crises 2009/2010

## ■ Publications

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

### Monetary Policy Report

Published three times per year. The report forms a basis for monetary policy decisions. By publishing this report the Riksbank makes its assessments generally accessible. In that way the Riksbank can stimulate interest in and facilitate understanding of monetary policy.

### Monetary Policy Update

Published three times per year between two Monetary Policy Reports. 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.

### Material for assessing monetary policy

Reports annually on the monetary policy conducted by the Riksbank in the immediately preceding years. It contains data and assessments necessary to enable the Riksdag to evaluate monetary policy.

### Financial stability

Published twice per year. The report presents the Riksbank's view of developments in the financial system and their significance for stability. The aim is to influence developments in the financial system and stimulate discussion on the subject.

### The Swedish Financial Market

Provides an annual presentation of basic statistics on the various parts of the financial sector and contains educational explanations of how these markets, institutions and systems function.

### Sveriges Riksbank Economic Review

Published three times per year. Contains in-depth articles on subjects in the Riksbank's field of activity.

### Annual Report

Provides an account of the Riksbank's activities during the past year. It also includes the annual accounts.

### Working Paper Series

Presents reports with a connection to the Riksbank's fields of activity that are also considered to be of interest to readers outside the Bank.

### Publications from the European Central Bank (ECB)

Include Swedish versions of the ECB's monthly bulletins, annual reports and convergence reports.

All the Riksbank's publications are available in full text 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 via 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 Commentaries in the form of short studies and debate articles are also collected on the website. As of 2009 it is also possible to download the results of the Riksbank's company interview surveys and risk surveys in pdf format.

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## ■ The Sveriges Riksbank Prize in Economic Sciences in memory of Alfred Nobel 2010

The Sveriges Riksbank Prize in Economic Sciences in memory of Alfred Nobel 2010 was awarded to Peter A. Diamond, Dale T. Mortensen and Christopher A. Pissarides. The three laureates have formulated a theoretical framework for search markets. Peter A. Diamond has analysed the foundations of how such markets function. Dale T. Mortensen and Christopher A. Pissarides have expanded the theory and applied it to the labour market. Thus they have developed tools to understand how unemployment, vacancies and wages are affected by regulation and economic policy.

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 to giving the Nobel Foundation each year in perpetuity the prize money and the amount necessary to cover the Foundation's administrative and financial expenses for the prize. The Government has established the statutes for the prize.

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

Peter A. Diamond was born in 1940 in New York City, NY, USA (US citizen). Ph.D. in economics, 1963, Institute Professor and Professor of Economics, all at Massachusetts Institute of Technology (MIT), Cambridge, MA, USA.

Dale T. Mortensen was born 1939 in Enterprise, OR, USA (US citizen). Ph.D. in economics, 1967, from Carnegie Mellon University, Pittsburgh, PA, USA. Ida C. Cook Professor of Economics at Northwestern University, Evanston, IL, USA.

Christopher A. Pissarides was born in 1948 in Nicosia, Cyprus (British and Cypriot citizen). Ph.D. in economics, 1973, Professor of Economics and Norman Sosnow Chair in Economics, all at London School of Economics and Political Science, UK.



*Peter A. Diamond*



*Dale T. Mortensen*



*Christopher A. Pissarides*

### Previous laureates

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

1969	R. Frisch and J. Tinbergen	1984	R. Stone	1998	A. Sen
1970	P.A. Samuelson	1985	F. Modigliani	1999	R.A. Mundell
1971	S. Kuznets	1986	J.M. Buchanan Jr	2000	J.J. Heckman and D.L. McFadden
1972	J.R. Hicks and K.J. Arrow	1987	R.M. Solow	2001	G.A. Akerlof, A.M. Spence and J.E. Stiglitz
1973	W. Leontief	1988	M. Allais	2002	D. Kahneman and V.L. Smith
1974	G. Myrdal and F.A. von Hayek	1989	T. Haavelmo	2003	R.F. Engle and C.W.J. Granger
1975	L.V. Kantorovich and T.C. Koopmans	1990	H.M. Markowitz, M.H. Miller and W.F. Sharpe	2004	F.E. Kydland and E.C. Prescott
1976	M. Friedman	1991	R.H. Coase	2005	R.J. Aumann and T.C. Schelling
1977	B. Ohlin and J.E. Meade	1992	G.S. Becker	2006	E.S. Phelps
1978	H.A. Simon	1993	R.W. Fogel and D.C. North	2007	L. Hurwicz, E.S. Maskin and R.B. Myerson
1979	T.W. Schultz and A. Lewis	1994	J.C. Harsanyi, J.F. Nash Jr and R. Selten	2008	P. Krugman
1980	L.R. Klein	1995	R.E. Lucas Jr	2009	E. Ostrom and O. E. Williamson
1981	J. Tobin	1996	J.A. Mirrlees and W. Vickrey		
1982	G.J. Stigler	1997	R.C. Merton and M.S. Scholes		
1983	G. Debreu				

## ■ Glossary

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

**Basel III** International regulatory framework for financial institutions that mainly regulates banks' capital adequacy, i.e. how much capital a bank must hold in relation to the risk it takes, and the way they manage liquidity. The rules were agreed in 2010 and will be progressively phased in by 2019.

**Basis point** A hundredth of a per cent. Thus, 100 basis points is equivalent to 1 per cent.

**Basis spread** Difference between three-month interbank rate and expected policy rate.

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

**Bond** Fixed-interest debt security that can be issued by a government, municipality, credit market company, mortgage institution or large company. A bond has a long maturity, at least one year. The nominal amount of the bond is repaid when the bond matures, and during its term the holder of the bond receives periodic interest payments.

**Capital market** Collective term for the stock, credit and derivatives markets.

**Central bank** Institution responsible for monetary policy in a country or currency area, i.e. adjusting the interest rate to maintain price stability. Central banks are usually also responsible for maintaining stability of the payment mechanism and issuing 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** Reconciliation of payments or netting of reciprocal claims between banks.

**Clearing house** Financial company that has a licence to conduct clearing operations on behalf of customers. Also known as a clearing organisation.

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

**Covered bond** Bond where the holder has a specific right of priority if the issuer defaults. Covered bonds normally have a lower credit risk than non-covered bonds, which reduces the cost of funding.

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

**CPIF, consumer price index with fixed mortgage rate** See CPI. Unlike the CPI, the CPIF is not directly affected by changes in mortgage rates.

**Currency exchange rate** See Exchange rate.

**Currency swap** See Swap agreement.

**Deposit facility** Arrangement making it possible for banks to deposit money in an account with the Riksbank for one day and receive interest (deposit rate).

**Deposit insurance** Government insurance for funds deposited in accounts with credit institutions belonging to the scheme. If a credit institution defaults the account holders get back their deposits, usually up to a given fixed amount.

**Derivative instrument** 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, futures and swaps.

**ECB, European Central Bank** Joint central bank for the EU member states which have adopted the euro, with 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 have adopted the euro.

**ECB General Council** Consultative body within the European System of Central Banks (ESCB) 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 economic affairs ministers. Every year, the ECOFIN Council issues economic policy guidelines and adopts, together with the European Parliament, financial legislation and the European Union's budget of around EUR 100 billion.

**EFC, 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. The central banks are represented in the EFC by their deputy governors.

**Exchange rate** Relative value between two currencies, i.e. the price at which one currency can be exchanged for another. Also called currency exchange rate.

**Executive Board of the Riksbank** Six members appointed by the General Council of the Riksbank for a 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 mechanism.

**Financial markets** Collective term for the markets where financial assets are bought and sold. The four most important markets are the foreign exchange market, the fixed income market, the stock market and the derivatives market.

**Financial stability** State in which the financial system can maintain its basic functions and also has resilience to disruptions that threaten these functions.

**Financial system** Collective term for a system that covers banks, insurance companies and other financial agents, as well as financial markets and the financial infrastructure in the form of technical systems, their regulations and routines that are required to make payments and exchange securities. The financial system also includes the financial regulatory framework in the form of legislation, regulation and other standards.

**Finansinspektionen, Swedish Financial Supervisory Authority** Central government agency with the task of monitoring the activity of banks, credit market companies, securities companies, securities brokers, fund management companies, stock exchanges, authorised marketplaces, clearing organisations and insurance brokers.

**Fine-tuning operations** Transactions that the Riksbank uses to absorb surplus liquidity from the banks or enable the banks to borrow money against collateral from the Riksbank to keep the overnight rate stable and close to the repo rate.

**Foreign currency reserve** See Gold and foreign currency reserves.

**Foreign exchange policy** Measures that a central bank takes to influence its own exchange rate in relation to other currencies. Also called exchange rate policy. In Sweden the Government decides whether the exchange rate will be variable or fixed. The Riksbank then has the task of managing daily policy within the framework of the system decided.

**FSAP, Financial Sector Assessment Program** Program used by the International Monetary Fund (IMF) to examine and analyse a country's financial sector. The programs are mandatory for 25 selected countries with large financial sectors.

**FSPOS, Financial Sector Private-Public Cooperation Group** A voluntary cooperation forum for private and public participants that aims to make the financial sector in Sweden more robust locally, regionally and nationally.

**G10, Group of Ten** Forum for international economic cooperation. Despite the name, it consists of eleven countries: Belgium, France, Italy, Japan, Canada, the Netherlands, Switzerland, the UK, Sweden, Germany and the USA. It 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 a country to be used for consumption, export and investments during a period, usually one year or one quarter.

**General Council of the Riksbank** Eleven members and as many deputy members appointed by the Riksdag (Swedish parliament), with the same mandate period as Members of the Riksdag. Appoints in turn the six members of the Executive Board of the Riksbank, monitors the Riksbank's activities and decides among other things on the design of banknotes and coins.

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

**IMF, International Monetary Fund** Body that works to ensure stability of the global financial system and to avoid international financial crises. Monitors and analyses the economic development of the 185 member countries, 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 for example CPI or CPIF.

**Interbank market** Market where banks trade interest and currencies with each other.

**Interbank rate** Daily reference rate based on the interest rates for unsecured loans offered by banks to other banks when they borrow from each other on the interbank market for terms of up to one year.

**Interest rate risk** Risk that the value of an interest-bearing security will fall due to a rise in market rates.

**Lending facility** Arrangement that makes it possible for banks to borrow money from the Riksbank for one day in return for interest (lending rate).

**Liquidity** Measure of the ability of a company or an 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 mechanism.

**Medieakademin** Collaboration project between Göteborgs-Posten (a Gothenburg-based daily newspaper), the University of Gothenburg, Forsman & Bodenfors and NFO Infratest (now TNS Gallup) who have been conducting a yearly survey since 1997 to measure confidence in social institutions, private companies and mass media.

**Modified duration** Measure of how sensitive the value of a debt security is to changes in the interest rate. Expressed as a percentage change in the price of the security if the interest rate rises by 1 percentage point.

**Monetary policy** Measures that a central bank takes to maintain price stability in the economy.

**Monetary Policy Counterparty** Credit institution with a registered office or branch in Sweden that is a RIX participant and that has access to credit facilities with the Riksbank. Since April 2009 credit institutions that have opted not to participate in RIX can be restricted monetary policy counterparties to gain access to the credit facilities.

**Money market** Part of the credit market with trading in instruments with a shorter term than one year, such as treasury bills and certificates. One of the most important functions of the money market is to ensure access to liquidity for banks and other financial institutions.

**Net interest income** Interest income from lending less interest expenditure for funding and deposits.

**Operational framework for implementation of monetary policy** System that makes it possible for a central bank to determine the conditions for banks' deposits and lending in the central bank in order to be able to influence the interest rate level in the overnight market and thereby influence price formation in the economy.

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

**Overnight loan** Loan from one business day to the next provided by a bank or other financial institution to another bank or financial institution. Banks can also borrow from or deposit with the Riksbank for a single day.

**Overnight market** Market where banks in particular can deposit or borrow from one business day to the next or up to one 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 monetary policy purposes. In Sweden the policy rates are the repo rate and the lending and deposit rates 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 limiting CPI inflation to 2 per cent.

**Productivity** Measurement that shows the amount of goods and services produced, output, in relation to the input, i.e. utilised resources in the form of labour and capital. The most common measure is labour productivity, which measures the output in relation to hours used in the production of that output.

**Repo, repurchase agreement** Repurchase transaction similar to 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 at a slightly higher price, where the difference corresponds to the repo rate. The Riksbank accordingly then receives its money back and the security returns to its original owner. The market participants call the Riksbank's repurchase of a security a reverse repo. Before the financial crisis in 2008 repos were usually carried out 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. The banks pay the repo rate when they borrow money from the Riksbank through the Riksbank's repo agreements.

**Resource utilisation** Specifies the extent to which the production resources labour and capital are utilised.

**Riksbank certificates** Securities with short maturities issued by the Riksbank for the purpose of absorbing surplus liquidity when necessary.

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

**Risk premium** Additional return that investors require as compensation for a higher risk.

**Risk-weighted assets** Total assets recorded in the balance sheet and off-balance sheet commitments totalled, valued and risk-weighted in accordance with the prevailing capital adequacy regulations.

**RIX, the Riksbank's payment system** Central payment system that processes payments to and from the banks' accounts with 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 government statistics in Sweden.

**SDR, Special Drawing Rights** Reserve asset created by the IMF for allocation to member countries. The value of the SDR is based on a basket of currencies comprising the US dollar, euro, yen and sterling.



**Seignorage** Revenues that a central bank receives on its coins and banknotes. Equivalent to the return on a central bank's assets corresponding to notes and coins in circulation, less the central bank's total cost of cash management.

**Settlement system** System for final regulation of debt when money or securities are transferred from one party to another, usually payment from one account to another.

**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.

**Stress test** Analysis of various scenarios to assess the resilience of banks, households or other entities to unexpected and negative events.

**Structural operations** Transactions made by the Riksbank to meet the financial sector's borrowing or deposit requirement in the longer term and to influence its structural position in relation to the financial sector.

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

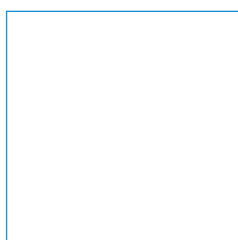
**Swap agreement** Bilateral agreement to exchange a currency or interest rate in return for another currency or interest rate for a predetermined period according to specific conditions.

**TED-spread, Treasury/Euro-Dollar-spread** Measurement that specifies the difference between the interbank rate and the interest on a treasury bill with the same maturity.

**Tier I capital** Equity less proposed dividends, deferred tax assets and intangible assets, such as goodwill. Tier I capital may also include some types of subordinated debt.

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

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





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