

Annual Report 2006

Our tasks

The Riksbank has two main tasks: we are responsible for monetary policy and for promoting a safe and efficient payment system. The objective of monetary policy is to keep inflation at a low and stable rate or, as it is expressed in the Sveriges Riksbank Act, "to maintain price stability". The second task includes issuing banknotes and coins, promoting safe and efficient payments and preventing crises in the financial system. The Riksbank also manages substantial assets, which are to yield a good long-term return.

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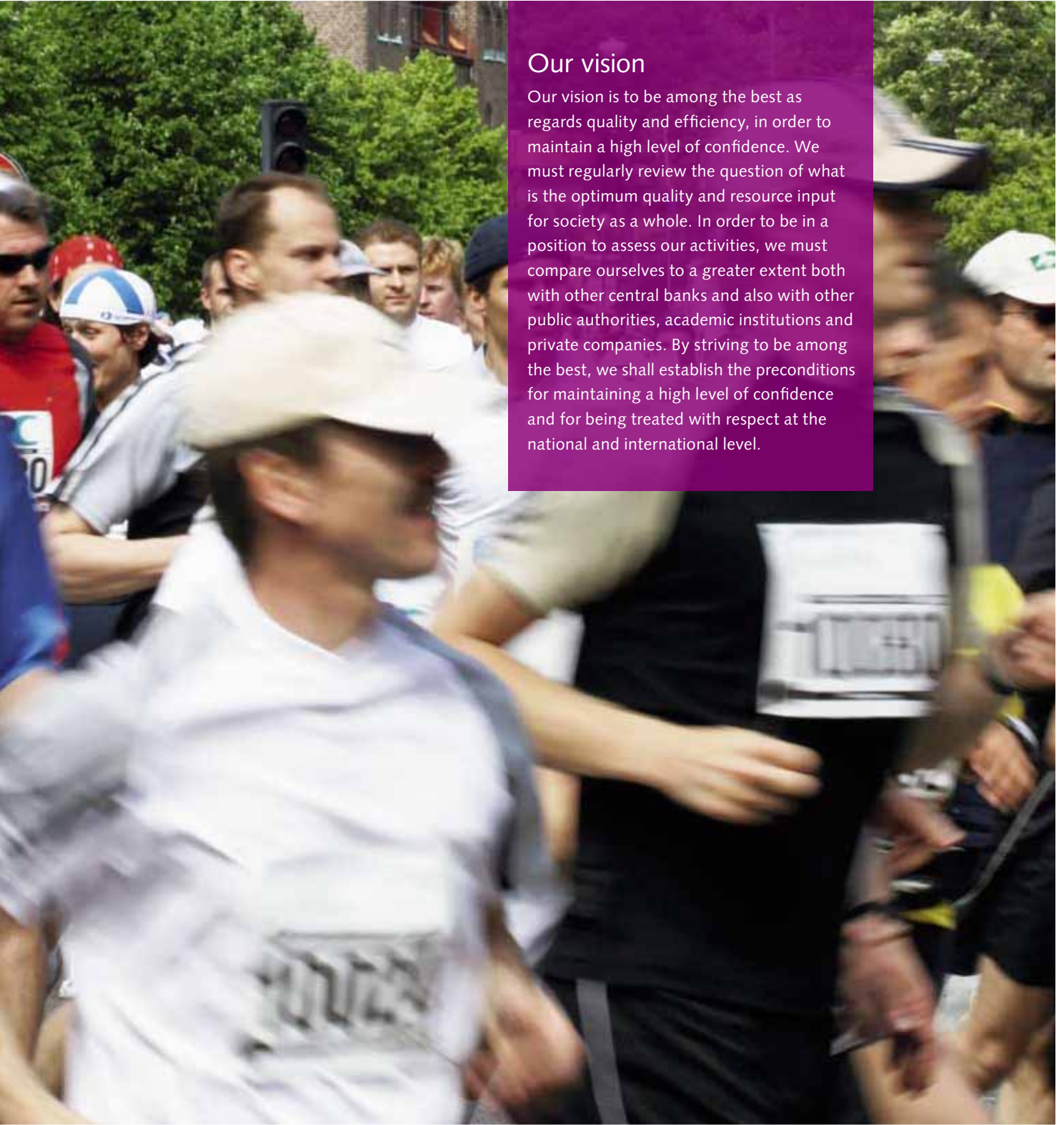
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Our vision

Our vision is to be among the best as regards quality and efficiency, in order to maintain a high level of confidence. We must regularly review the question of what is the optimum quality and resource input for society as a whole. In order to be in a position to assess our activities, we must compare ourselves to a greater extent both with other central banks and also with other public authorities, academic institutions and private companies. By striving to be among the best, we shall establish the preconditions for maintaining a high level of confidence and for being treated with respect at the national and international level.

■ Introduction

Sveriges Riksbank is Sweden's central bank and a public authority reporting to the Riksdag, the Swedish parliament. The Riksbank is responsible for the conduct of Swedish monetary policy with the objective to maintain price stability. The Riksbank has also been assigned the task to promote a safe and efficient payment system.

The Riksbank has around 400 employees and is governed by an Executive Board consisting of the Governor, Stefan Ingves, and five deputy governors. The members of the Executive Board are appointed by the General Council of the Riksbank for a mandate period of six years.

The year in brief

- Inflation, measured as a change in the consumer price index (CPI) and by using the commonly applied measure of underlying inflation, UND1X, averaged 1.4 per cent and 1.2 per cent respectively during the year. In its most recent assessment, the Riksbank estimated economic growth in Sweden at 4.5 per cent.
- Stability in the financial system continued to be good.
- The Riksbank decided on repo rate increases during the year that resulted in an aggregate increase of 1.5 percentage points. The repo rate at the end of the year was 3.0 per cent.
- During the year, the Riksbank published three Inflation Reports and two Financial Stability Reports.
- The Riksbank reported a profit of SEK 7.9 billion.
- On 17 October, the Riksdag appointed a new General Council of the Riksbank. Five of the eleven members and eight of the eleven deputies were appointed to these assignments for the first time. On 19 October, the General Council of the Riksbank decided to elect Johan Gernandt as the new Chairman of the General Council. Leif Pagrotsky was elected as Vice Chairman.
- At the end of June, the Riksbank wound up operations at the office for cash management in Malmö.

The year in figures

Key data	2006	2005	2004
<i>At year-end</i>			
Result for the year (SEK billion)	7.9	3.3	-2.8
Gold and foreign exchange reserve (SEK billion)	189	195	163
Number of employees (full-time equivalent)	376	410	434*
<i>Repo rate (per cent)</i>			
	3.0	1.5	2.0
<i>Short-term rate (3-month T-bills, per cent)</i>			
	3.10	1.69	1.99
<i>Long-term rate (10-year government bonds, per cent)</i>			
	3.81	3.34	4.03
<i>On average</i>			
GDP (percentage change)	4.5**	2.9	4.1
Unemployment (per cent)***	5.4**	5.9	5.9
CPI inflation (percentage change)	1.4	0.5	0.5****
UND1X inflation (percentage change)	1.2	0.8	0.9****

* Of which 33 FTE positions refer to former employees of SKAB

** Forecast in Inflation Report 2006:3.

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

**** Measure of inflation according to the method used up to 1 January 2005.



■ Statement by the Governor

Over the past year, we at the Riksbank have continued to strive to keep inflation low and stable and to ensure that the payment system functions efficiently. A special effort has been made to help the general public understand why these tasks are important and how we address them.

The Riksbank is a workplace that encompasses a number of different operations. To establish a clear platform for these operations, the Executive Board formulated a vision in 2006 for how the Riksbank should work in the coming ten years. The Riksbank should be among the best in terms of quality and efficiency. Only in this way will we be able to earn the confidence of the general public, which we regard as vital for accomplishing the tasks entrusted to us. We must therefore measure our performance against others to an even greater extent. But we should not restrict ourselves to comparisons with other central banks, but also benchmark performance against other public authorities, academic institutions and private companies.

Our common vision states clearly that the Riksbank must be an organisation that is willing to embrace change if necessary. We want as many people as possible to understand what we do. We must therefore be able to communicate our messages clearly. Other parts of the vision include doing what we are best suited to do with the appropriate skills and a positive working climate.

We should also take a self-critical approach to evaluating our actions to establish whether we do in fact live up to our own level of ambition. We will continuously monitor our operations to see whether we perform the tasks that have been assigned to us in a manner consistent with the quality, efficiency and trustworthiness expected of us.

To summarise 2006, I am pleased that we can report a positive outcome for nearly all areas of the business. Inflation measured as CPI has remained within the target band since last March, inflation expectations are stable at around the inflation target and the banks' ability to withstand any shocks to the financial system is deemed to be good. Things have also gone well for most of our operative fields of activities: our payment system has worked well, the statistics have maintained a high standard and the new structure for cash management has started to take shape. The management of our foreign assets reported a loss as a result of a stronger krona. The financial results posted for the Riksbank as a whole amounted to a profit.

In 2006 we have also been evaluated by third parties. In the autumn, professors Francesco Giavazzi and Frederic Mishkin presented their evaluation of Swedish monetary policy during 1995-2005, which was commissioned by Parliament's Committee on Finance. The overall assessment in their evaluation was that the Riksbank fares well in a comparison with the best central banks in the world. But the evaluation did contain some points of criticism. The Bank's communications could have been clearer and its forecasts more accurate. This is something we will take note of and look to address in the future. I am looking forward to another interesting year at the Riksbank.

Stefan Ingves

■ The Riksbank's role and assignments

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

Maintaining the value of money

– price stability

Under the Sveriges Riksbank Act, the Riksbank shall maintain price stability, that is to say the Riksbank must ensure a low and stable rate of inflation. This provides good conditions for favourable and sustainable economic growth.

The Riksbank has defined its price stability objective in terms of limiting inflation (the rate of price increases) to 2 per cent per year, as measured by the consumer price index (CPI), with a tolerance of ± 1 percentage point. The purpose of the ± 1 per cent band is to make it clear that it is impossible to meet the inflation target precisely on a continuous basis. But, at the same time excessive deviations cannot be accepted if the target is to continue to be credible. The inflation target should normally be achieved within two years, but adjustment over a longer period may sometimes be justified in order to avoid unnecessary fluctuations in employment and growth.

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

A safe and efficient payment system

– financial stability, the RIX payment system, and banknotes and coins

The Riksdag has assigned the Riksbank the task to promote a safe and efficient payment system. The Riksbank has interpreted this task as meaning that it should foster stability in the financial system as a whole. This assignment also includes responsibility for issuing banknotes and coins. Furthermore, the Bank has operational responsibility for the system that enables banks to execute large-value electronic payment transactions with other banks in a secure manner.

The Riksbank analyses the stability of the financial system on an ongoing basis, in order to identify changes and vulnerable aspects which might result in a bank crisis. This analysis primarily focuses on the major Swedish commercial banks and the infrastructure required to ensure that payments can be made. In certain circumstances, the Riksbank may provide temporary liquidity assistance to banks in the event of a crisis.

The Riksbank's independence

The Riksbank is a public authority that reports to the Riksdag, which appoints the 11 members of the Riksbank's General Council. In its turn, the General Council appoints the six members of the Riksbank's Executive Board for periods of six years. Another role of the General Council is to supervise and scrutinise the work of the Executive Board.

In the late 1990s, the Riksdag gave the Riksbank an independent status, making the Executive Board responsible for decisions regarding its tasks without taking directives from other parties. In laying down the objective for the Riksbank to maintain price stability, the Riksdag wanted to give monetary policy a long-term perspective and to establish satisfactory pre-conditions for achieving credibility for the monetary policy objective. In order to obtain insight into the work of the Executive Board, the Chairman and Vice Chairman of the General Council are entitled to attend Executive Board meetings and express their opinions at such meetings, but they cannot make proposals or participate in decisions.

Openness and communication

The Riksbank places considerable emphasis on transparency and clarity in all aspects of its activities. The Riksbank's communications must make it possible for a wide range of external parties to benefit from information about the Bank's assignments and results. There are several reasons why openness and communication are important for the Riksbank.

The Riksbank's independent status makes considerable demands on its activities being characterised by openness and democratic insight. Openness is an essential aspect of establishing credibility and legitimacy, both for monetary policy decisions and the Riksbank's activities in the financial stability area. The Riksbank's task is facilitated if external parties can understand and assess the Bank's analyses and standpoints.

As a public authority, the Riksbank must report its activities, explain its decisions, and provide information about how public funds are handled and managed. The Riksbank must also supply information about the products and services offered to the general public and the financial sector, for example banknotes and coins, payment services, monetary policy and foreign exchange policy transactions, and statistics.

Openness is also essential for the evaluation of the Riksbank's activities.



Björn Vidalve, Camilla Hagman Falkler and Marianna Blix Grimaldi.

■ Maintaining the value of money – price stability

The Sveriges Riksbank Act stipulates that the Riksbank must maintain price stability. This means that the Bank must ensure that the rate of inflation is low and stable. The Riksbank has defined this in terms of a monetary policy target of an annual rate of inflation of 2 per cent. The Riksbank uses its key policy rate – the “repo rate” – to control inflation. Since monetary policy has a delayed impact, the Bank must forecast future trends for the economy and inflation. Monetary policy is normally focused on achieving the inflation target within two years.

The importance of a low and stable inflation rate

A low and stable rate of inflation is important for several reasons. One reason is that a low and stable rate of inflation means that consumers and companies can also understand the future value of money. This reduces the uncertainty involved in shopping, investing, borrowing, or wage negotiations. And it makes it easier to plan and take key decisions on matters such as investment in new technology or more employees.

Another reason favouring a low and stable rate of inflation is that it counteracts arbitrary redistribution of resources between different groups in society. People who saved their money in a bank account during the 1970s and 1980s, for example, found that the value of their savings declined. But people who borrowed money instead, and bought a house, made a profit, since

house prices rose roughly in line with inflation, while inflation reduced the value of the loan.

A low and stable inflation rate provides excellent conditions for growth since it ensures that the economy has satisfactory and sustainable foundations. This is the Riksbank’s most important contribution to sound economic development.

Target and monetary policy strategy

According to the Sveriges Riksbank Act the objective for the Riksbank’s activities is to maintain price stability. This means a low and stable rate of inflation. The Riksbank has defined this objective as an inflation rate of 2 per cent a year, with a tolerance of ± 1 percentage point. The purpose of the ± 1 per cent band is to make it clear that it is not possible to meet the inflation target precisely all the time. But, at the same time excessive deviations cannot be accepted if

OUR WAY OF WORKING:

An organisation prepared for change

We must be an organisation prepared for change. Our mission is already established, but the best way of implementing it may vary, depending on changes in our external environment. We can predict some changes, but not others. We must prepare for the changes which we are aware of and which we can predict. But, in addition, our way of working must enable us to adapt to changes which we cannot currently foresee. The Riksbank must be an organisation which utilises the experience of others, and shares its own experience.

the target is to continue to be credible.

The Riksbank has chosen to define the inflation target in terms of the consumer price index (CPI). The CPI measures the price of a basket of goods and services, weighted on the basis of their share of household consumption. The Riksbank also bases monetary policy decisions on indicators of underlying inflation, in which the common factor is that commodities whose prices tend to vary substantially and which are not considered to have a lasting impact on inflation are eliminated from the CPI index.

UNDIX is one indicator of this nature which is often used by the Riksbank when justifying monetary policy decisions. The UNDIX indicator eliminates the direct effects of changes in indirect taxation and subsidies (as a result of fiscal policy) and interest costs for private housing (as a result of monetary policy).

Monetary policy normally aims at achieving the inflation target within two years. If it does not bring the rate of inflation back on target as soon as possible, the Riksbank has an opportunity to take developments in the real economy into account, for example economic growth and employment. The two-year horizon helps to achieve this, while maintaining the credibility of the inflation target. Hence, the Riksbank's ambition is to contribute to sustainable growth and a high rate of employment, in line with the spirit of the preparatory text for the Sveriges Riksbank Act.

Sometimes, there may also be good reasons for allowing more than two years to achieve the inflation target. Perhaps the economy has suffered serious disruption, such as an international recession, while prices for some goods are rising. If, in a situation of this nature, the Riksbank tried to bring inflation back on target within two years, this might result in very considerable cutbacks in production and employment. The speed at which the rate of inflation should be returned to target after a deviation depends on the type of disruption involved.

When the Riksbank allows more than two years for inflation to meet the target, it is important that this is clearly explained – otherwise the credibility of the inflation goal will suffer.

The Riksbank's control of interest rates

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

Via its repo rate decisions, the Riksbank controls the market's shortest interest rate for loans between commercial banks – the overnight rate – that is to say the rate that the banks pay when they borrow from or lend to each other. And somewhat longer-term interest rates are also affected by repo rate expectations because



Linda Sjöblom, Gustav Karlsson
and Anna Webrell.

there is always an alternative to depositing or borrowing funds at a variable rate of interest governed by the repo rate. The really long-term rates are not affected by the current monetary policy, but they are influenced by the credibility of adherence to the inflation target. For example, someone who saves in a long-term interest-bearing investment fund expects to have compensation for inflation so as to ensure that his or her purchasing power is not diminished. As a result, stable inflation expectations also stabilise long-term interest rates.

The repo rate's impact on the economy and inflation

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

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

In other words, a change in the repo rate affects the economy and inflation at several levels and over a period of several years. Some of these effects have a rapid impact, for instance on borrowers with variable mortgage interest rates. But the impact of employers' wage costs on inflation is much slower to take effect, for example.

Work and decision-making processes in the monetary policy area

Since there are lags in monetary policy, the Riksbank bases its decisions on forecasts and estimates of what will happen over the next few years. Such assessments obviously involve uncertainties.

OUR WAY OF WORKING:

Openness and active communication

Openness and active communications are key prerequisites in ensuring that our efforts are to have the impact we are striving for. As a result, the Riksbank's communications must make it possible for a wide circle of external parties to benefit from information about the Bank's facts and figures. The Bank's independent status makes considerable demands on transparency that permits scrutiny and evaluation. Openness is an essential factor in establishing confidence and legitimacy in activities.



As a result, the Riksbank is continuously trying to develop its forecasting methods and to predict the future with greater skill.

The economic realities are complex, and therefore the Riksbank has to base its forecasting on simplified correlations – in other words models. These forecasts are then combined with the expert assessments in the various areas. The Bank, for example, analyses the economic and inflation outlook in Sweden and the rest of the world, trends in the financial markets, inflation expectations and various risks in the economy.

The Riksbank endeavours to explain the assessments and considerations on which interest-rate decisions are based in a pedagogic manner. The Riksbank's forecasts are published three times a year in the form of Inflation Reports. The monetary policy assessments and considerations are also reported on a regular basis in

speeches by members of the Executive Board, at press conferences, in seminars and in newspaper articles.

The Executive Board normally holds seven monetary policy meetings a year at which repo rate decisions are taken. An Inflation Report is published in connection with three of these meetings. Minutes are published about two weeks after each monetary policy meeting, providing an opportunity to follow the discussion which preceded the interest-rate decision concerned and the way the various members of the Board voted. The Riksbank also presents a written report on monetary policy to the Riksdag at least twice a year. This report is the Inflation Report which is presented when the Governor of the Riksbank participates in public questioning about monetary policy in Riksdag Committee on Finance.

The Riksbank's research

The research conducted by the Riksbank aims to develop models and tools to provide a basis for the analyses used by the Executive Board when making its decisions. This gives the Bank greater opportunities to meet the challenges that occur in the process of achieving a low and stable rate of inflation and financial stability.

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

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

During the autumn of 2006, the Riksbank's Research Division arranged four workshops which fully reflected the diversity of activities. Issues involving the independence, governance and assignments of central banks were discussed in late August/early September, with the participation of prominent academics and governors of central banks. Central banks are familiar with such problems, but they are new for the research world.

In September, a research conference was arranged with a focus on the statistical methods employed in recently developed models for monetary policy decisions. In view of the complexity of these models, increasingly sophisticated methods are required to estimate various economic correlations, and this also means that the models are more concrete and flexible. This facilitates the Executive Board's assessments and decisions concerning risks and uncertainty.

In October, a report on the Riksbank's historical statistics project was presented. This project involves the collation of statistics in key areas, such as prices, the money supply and exchange rates from the mid-17th century onwards. Economic historians from several Swedish universities participated in this project.

Finally, a workshop was held in November on the exchange rate for the Swedish krona, following up cooperation with a number of external researchers initiated in the preceding year to supplement the Bank's ongoing studies with a broader and deeper analysis of currency trends and the determining factors. These researchers presented their conclusions in this workshop.

■ A safe and efficient payment system – financial stability, the RIX payment system and the supply of banknotes and coins

The Sveriges Riksbank Act stipulates that the Riksbank shall promote a safe and efficient payment system. In addition to ongoing monitoring and crisis-management duties, this assignment also includes responsibility for the provision of banknotes and coins. Furthermore, the Bank also has operational responsibility for the system that enables banks to safely execute large-value payment transactions with other banks.

An effective payment system is a crucial factor in any economy. Almost all economic activities call for the execution of payments. Payments may be made either in cash or via a bank account. A system for the transfer of money between the various banks and payment institutions is required for the execution of payments between such parties. The Riksbank provides such a system – the RIX system. Hence, the Riksbank plays a key role in ensuring the execution of payments in Sweden.

The Riksdag has assigned the Riksbank to promote a safe and efficient payment system, and the commercial banks are responsible for key aspects of this system. As a result, if the Riksbank is to promote a safe and efficient payment system, it must continuously assess the risk status and the ability to withstand unexpected losses in the banking system. This means that the Riksbank must analyse the solvency of borrowers from the banks on an ongoing basis. Financial undertakings and markets have also become an increasingly important factor for the financial system and, as a result, for the banks too. Hence, the Riksbank must also assess the risks in the financial system as a whole, and how they affect the banks.

The Riksbank's areas of responsibility in promoting a safe and efficient payment system are outlined in Figure 1.

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



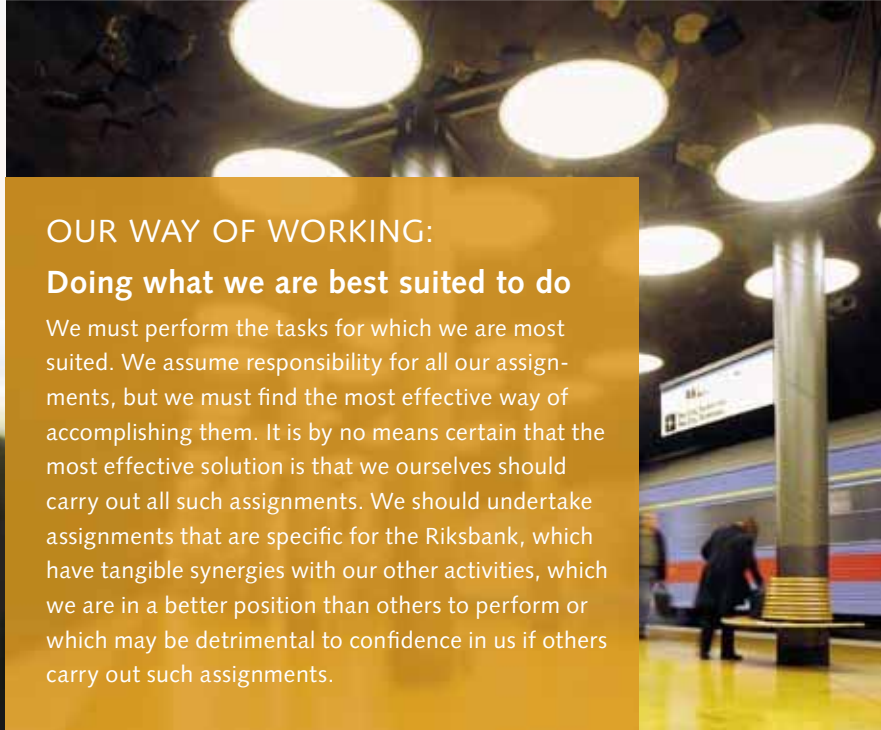
Financial stability

The importance of the financial system

The financial system's functions are to convert savings into investments, provide payment services and manage financial risks. An inefficient financial system leads to major economic costs. As a result, the state has strong reasons for safeguarding stability and promoting efficiency in the financial system in various ways, for example by drawing up regulatory frameworks, and by monitoring companies operating in the system.



Johanna Fager Wettergren and Johan Arvidsson.



OUR WAY OF WORKING:

Doing what we are best suited to do

We must perform the tasks for which we are most suited. We assume responsibility for all our assignments, but we must find the most effective way of accomplishing them. It is by no means certain that the most effective solution is that we ourselves should carry out all such assignments. We should undertake assignments that are specific for the Riksbank, which have tangible synergies with our other activities, which we are in a better position than others to perform or which may be detrimental to confidence in us if others carry out such assignments.

The importance of banking operations in the payment system

The payment system is especially important because all economic activities assume that payments can be implemented. The most significant form of payment today is the electronic transfer of funds between transaction accounts in banks. As a result, the banking system has a crucial role in the payment system. If the entire banking system collapsed, the payment services provided by banks could not be carried out by other parties.

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

Stability is also based on confidence in the financial system. If a problem occurs in one institution, this may be sufficient to create a suspicion which then spreads to similar operations. If confidence evaporates, the banks may have difficulty in conducting their operations, and then the system is in danger. The basic prerequisites for confidence are healthy financial institutions and a market that works smoothly.

Supervision of the financial system

The Riksbank's assignment to promote a safe and efficient payment system calls for monitoring of the financial system as a whole, since financial institutions and markets have come to play an increasingly important part in ensuring that the system functions satisfactorily. The Riksbank's supervisory tasks concentrate primarily on the major Swedish banks, and on the infrastructure that is crucial for payments, including the technical systems, rules and routines employed for payments for securities, currencies, goods and services.

Influencing the financial regulatory structures

The Riksbank also promotes a safe and efficient payment system by influencing the way in which regulatory structures and standards for financial undertakings are designed. A growing number of rules and norms are now drawn up at an international level, within the EU and the Bank for International Settlements (BIS) framework, for example. The Riksbank participates actively in these discussions. As a consultative body, the Riksbank also tries to influence the formulation of rules for Swedish financial undertakings. Consultations involve, for example, both the incorporation of EC legislation into Swedish law and amendments to specific Swedish legislation. Participation in the establishment of international rules and standards and the expression of consultation opinions on Swedish parliamentary bills and official reports is an important aspect



of the Riksbank's efforts to influence regulatory frameworks that affect financial stability.

Crisis management

If a crisis occurs in the financial system, notwithstanding preventive measures by the Riksbank, the Bank must act to limit the economic costs to society of the crisis. In order to ensure a contingency facility for effective crisis management, the Riksbank organises its own crisis management exercises and also participates in similar exercises in cooperation with Swedish and foreign authorities.

In the event of a crisis, the Riksbank can provide emergency liquidity assistance to a bank or a financial institution that has encountered payment problems, provided that it is under the supervision of Finansinspektionen (the Swedish financial supervisory authority). Additional requirements are that the bank is considered to be solvent and there would otherwise be a risk that the financial system would be so seriously disrupted that its functions could not be maintained. The fact that a major bank is involved is not, per se, sufficient reason for assistance from the Riksbank. The Bank's preventive monitoring is a prerequisite for the ability to rapidly make such assessments in a crisis. The exact terms for liquidity support inevitably vary, in line with the situation that has occurred. The Riksbank endeavours to ensure that it receives adequate collateral for the loans and guarantees

issued, and that market terms are applied in other respects.

Preparing Financial Stability Reports

The Riksbank's capacity to prevent disruption in the banking system and the infrastructure largely depends on its ability to identify risks, and influence key participants with a crucial role in the stability of the financial system.

These participants include banks, aspects of the infrastructure involving critical systems, legislature and international institutions. If the Riksbank is to influence events, it is essential that it has a high level of credibility, and this calls for expertise and considerable openness on the Riksbank's part.

In the Financial Stability Reports the Bank publishes twice a year, the Executive Board presents its assessment of the stability of the financial system. These reports are designed to facilitate discussion of stability issues, for example, and to influence participants with a key role in maintaining stability. The starting point for the Board's assessment is risks in financial markets which may affect participants in the Swedish payment system. The Riksbank also analyses changes in borrowers' ability to meet their commitments and the banks' ability to withstand unexpected losses, by studying their profitability, the quality of their assets and their financing. The financial infrastructure is also analysed in order to form an opinion about



OUR WAY OF WORKING:

The right expertise

We must have professional staff with appropriate expertise. A high degree of specialist competence is required in a number of areas. In addition, we must have many staff members with a broad range of expertise, who are aware of the overall picture and the links involved. We must endeavour to ensure that employees can develop their skills in their work on a continuous basis, thus helping to make the Riksbank an attractive workplace.



structural weaknesses that might have spin-off effects via the payment system. The reports also include articles that discuss topics that are relevant for stability and the efficiency of the financial system.

The RIX payment system

The Riksbank's RIX system for the settlement of major payments may be regarded as the hub of the Swedish payment system. All payments between banks and other parties are processed via the RIX system. The weekly turnover is approximately SEK 2,500 billion, which corresponds to the entire Swedish GDP. RIX currently has 21 participants, including the four major commercial banks and clearing houses.

If RIX was to cease to function, this would have a serious impact on the banks' ability to handle their payments. As a result, the Riksbank has established clear targets to guarantee that RIX is safe and effective. Firstly, the system must be 99.85 per cent accessible during hours of operation during the calendar year. Secondly, 80 per cent of its customers must be satisfied, and thirdly the system must be fully financed by charges paid by participants. In addition, there must be tried and tested emergency routines.

Prior to 31 December 2006, the RIX system comprised two parallel systems, one for settlements in Swedish kronor (K-RIX), and one for euro payments (E-RIX). E-RIX was phased out on 31 December 2006.

Rapid developments in the IT sector mean that the demands made on payment systems in terms of safety and efficiency are growing continuously. As a result, for some years the Riksbank has been developing a new technical system and a new technical platform for RIX (see page 34).

Banknotes and coins

The Riksbank is responsible for supplying banknotes and coins in Sweden. The Bank's responsibilities include the provision of cash, the destruction of worn banknotes and coins, and the redemption of banknotes that are no longer valid.

In recent years, there have been considerable changes in cash handling routines in Sweden. The Riksbank has progressively reduced its involvement in operative activities, in line with its strategy to focus on core activities and to contribute to the rationalisation of cash handling in society as a whole. At the end of 2006, the Riksbank had two remaining branch offices, in Tumba and Mölndal. These branches supply cash to the banks, and the banks are then responsible for distribution to the public.

The Riksbank's objective for the provision of cash is that the general public should have a high measure of confidence in Swedish banknotes and coins. In addition, the Riksbank endeavours to ensure that cash should be a safe and efficient form of payment.



Maud Nilsson, Eva-Lena Jacobsson, Eva Ekström and Inga-Lill Larsson.

■ Asset management

The Riksbank manages financial assets with a total value of approximately SEK 200 billion. Management is to be conducted in a manner that guarantees that the Riksbank can fulfil statutory targets and assignments as regards price stability and financial stability. Provided that these requirements are met, the Bank's asset management should also contribute to a satisfactory yield. The frameworks for asset management are elucidated in internal rules that indicate the Executive Board's view of the risks that the Riksbank may take.

The asset management decision process

The Riksbank's financial management activities are at two levels: a strategic level and a tactical level. At the strategic level, the Riksbank's Executive Board determines the long-term focus of asset management. The Executive Board delegates some scope for deviations in this respect to the head of the Market Operations Department (MOP), which is where tactical asset management is determined. In turn, the head of Market Operations determines the frameworks that investors must adhere to when they buy and sell various assets on a short-term basis.

FIGURE 2
The Riksbank's balance sheet.

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

The balance sheet, in a simplified form, provides an excellent starting point for describing operations and the considerations that must be taken into account in the asset management process (see Figure 2). The balance sheet total varies over the year, mainly due to the general public's pattern of demand for cash. The total peaks at the end of the year when Christmas shopping increases the amount of cash in circulation.

The Riksbank's assets

The Riksbank's foreign exchange reserves consist of securities in foreign currencies which are easy to sell, mainly government bonds. The Bank places its assets primarily in euro and US dollars. The other currencies employed are the British pound, the Norwegian krona, the Australian dollar and the Canadian dollar. The monetary policy strategy pursued by the Riksbank very rarely involves the purchase or sale of foreign currency to influence the value of the Swedish krona, although the need for such transactions would increase if the Government decided to reintroduce a fixed exchange rate, for example if Sweden joined the ERM2 exchange rate mechanism.

Like most other central banks, the Riksbank has gold reserves. To some extent, the gold reserve is a relic of former days, but it may also be regarded as a form of ultimate security if other assets are not longer viable.

In order to implement its monetary policy, the Riksbank also has assets in Swedish kronor,

*Lena Strömberg,
Johanna Nahkuri Högfeldt
and Per Kvarnström.*

primarily in the form of very short-term claims on the banks (“monetary policy repos”).

The Riksbank manages assets of almost SEK 200 billion, and this implies a focus on the way these risks are managed. The value of the foreign currencies and government bonds held by the Bank may decline if exchange rates or interest rates change. As a result, the Riksbank has drawn up clear rules for risk management, and has ensured that the Bank has the appropriate monitoring and control functions.

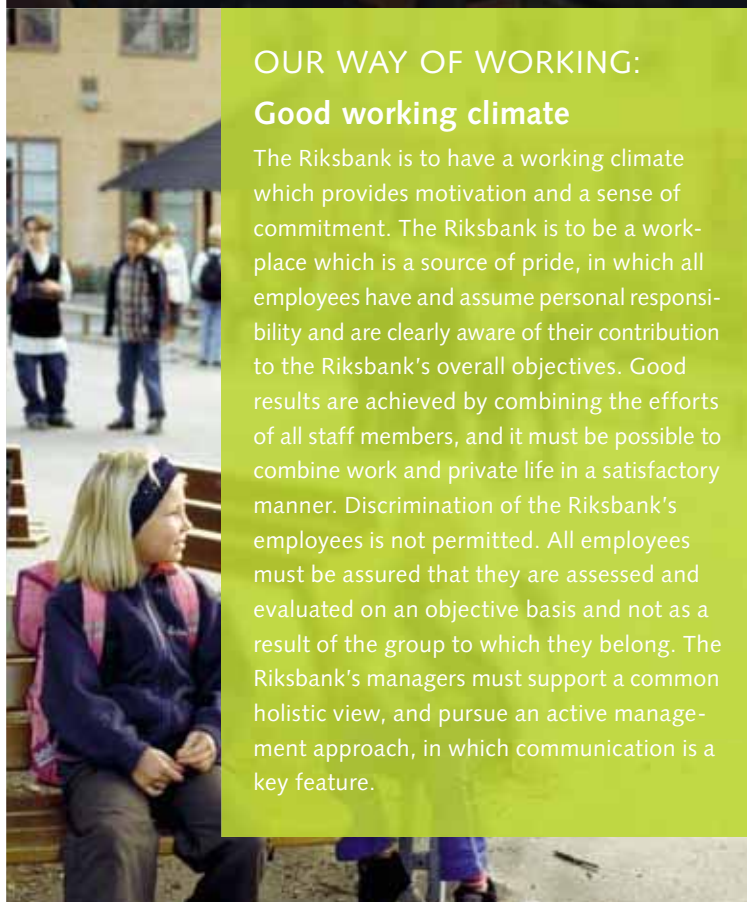
The Riksbank’s liabilities

The largest item on the liabilities side is banknotes and coins issues by the Riksbank (see page 61). The second item is the Riksbank’s capital, which must be sufficient to cope with losses and financial costs of various kinds. Insufficient capital might weaken confidence in the Riksbank’s ability to carry out its assignments.

There are several reasons why the Riksbank needs capital. The Bank’s current activities, that is to say wages and salaries, premises, etc. are financed by the return on capital. The Riksbank also needs capital to cover losses that may occur in a crisis situation if the Bank needs to give credits to banks and other financial institutions. Finally, capital is required to cover any losses that may occur in the day-to-day management of the gold and foreign exchange reserve, which is described in more detail in the next section.

The financial regulatory framework and risk management

The Riksbank has assembled the rules that govern asset management in the form of a regulatory structure which stipulates the financial risks that may be taken and the general investment rules that apply. These rules may be seen as a framework that indicates the way in which the Executive Board regards risk-taking. In day-to-day operations, the heads of the departments concerned are responsible for ensuring that risks are managed in a satisfactory manner.



OUR WAY OF WORKING: Good working climate

The Riksbank is to have a working climate which provides motivation and a sense of commitment. The Riksbank is to be a workplace which is a source of pride, in which all employees have and assume personal responsibility and are clearly aware of their contribution to the Riksbank’s overall objectives. Good results are achieved by combining the efforts of all staff members, and it must be possible to combine work and private life in a satisfactory manner. Discrimination of the Riksbank’s employees is not permitted. All employees must be assured that they are assessed and evaluated on an objective basis and not as a result of the group to which they belong. The Riksbank’s managers must support a common holistic view, and pursue an active management approach, in which communication is a key feature.

In the Market Operations Department, the Middle-Office Unit evaluates results and risks in the management of the gold and foreign exchange reserves on an independent basis. In the Financial Stability Department, there is a risk-control division which is responsible for independent checking of financial risks vis-à-vis the Market Operations Department and the other departments concerned. In addition, the Riksbank's Internal Audit Department examines and evaluates all management operations, including risk management.

The Executive Board reviews asset management operations every year to ensure that the focus is in line with the Bank's principal assignments. In the course of this review, the Board must weigh up the risks taken in fulfilling statutory objectives and assignments and the risks taken in generating a return. In practice, this involves determining the Riksbank's exposure to four different types of risk: foreign exchange, gold price, interest rate and credit risks.

Currency risk is the risk that the market value in Swedish kronor of assets in foreign currencies will change as a result of a change in the value of the krona in relation to the currencies in the foreign exchange reserve. This is the largest

single risk in the balance sheet, since the Riksbank's assets primarily consist of interest-bearing securities in foreign currencies. As a result, the Executive Board endeavours to achieve a distribution of foreign currencies that minimises the exchange rate risk in SEK. This reduces fluctuations in the Riksbank's annual profit and loss account, and hence also the risk of depletion of the Bank's capital.

The gold price risk is the risk that the market value of the Bank's gold holdings will change if gold prices change. Once a year, the Executive Board decides whether to utilise the Riksbank's sales allocation, determined in agreement with other central banks.

The Riksbank also takes credit and interest rate risks in order to obtain a higher return on its assets. The interest rate risk is the risk that changes in interest rates will affect the return on an investment, while the credit risk is the risk that the Riksbank's counterparties, or the issuer of a security in which the Riksbank has invested, cannot meet their payment commitments.



OUR WAY OF WORKING: Self-critical evaluation

We must evaluate our activities in a critical spirit. The Riksbank's vision is an expression of a high level of ambition for the Bank's activities. In order to ensure that we living up to these ambitions, we must monitor our activities in a manner that enables us to evaluate the fulfilment of our targets for our various assignments. We must undertake this evaluation openly and in a self-critical spirit, based on three perspectives: quality, efficiency and confidence.



■ Statistics

The Sveriges Riksbank Act stipulates that the Riksbank should provide access to statistical information about foreign exchange and credit circumstances on an ongoing basis. The Riksbank also publishes balance of payments and financial market statistics. A high proportion of these tasks are performed in close cooperation with Statistics Sweden. The Riksbank's statistics are used by many national and international organisations and by market participants.

The Riksbank publishes statistics involving the balance of payments, financial markets, interest rates and foreign currencies. The balance of payments statistics include information about the balance on current account and capital flows. The money and banking statistics contain information about household and corporate indebtedness, and the money supply.

The Riksbank works in close cooperation with Statistics Sweden (SCB), which has for several years been commissioned by the Bank to produce money and banking statistics and some of the balance of payments statistics. Under this arrangement, the Riksbank is responsible for quality assurance, funding and development of the contents of the statistical information, while Statistics Sweden collects and processes the data.

The Riksbank's statistics are used by a large number of national and international organisations and market participants. These users have high standards as regards user-friendly statistics of satisfactory quality. As a result, there is extensive cooperation with EU countries within the framework of Eurostat and the European Central Bank System (ECBS).

■ The Swedish financial market

Some of the Riksbank's statistics are presented in an annual report entitled "The Swedish Financial Market", which provides an overall description of the various financial sectors, such as the stock market, the interest rate and foreign exchange markets, the banks and the major payment systems in Sweden. The report also explains how these markets, institutions and systems work.

■ International cooperation

The Riksbank is affected in various ways by Sweden's economic integration with the rest of the world. As a result, international cooperation is an important factor in the Bank's activities. International contacts enable the Riksbank to influence international decisions and discussions that affect the Bank's own activities, and the environment for the financial sector in Sweden. The international cooperation also provides opportunities for an exchange of expert knowledge and experience with other central banks which is beneficial for the Bank's development of its own analyses.

The Riksbank's activities are greatly influenced by what is happening in other countries. For example, the Bank must have knowledge of developments in the world economy and the international financial markets if it is to forecast the rate of inflation in Sweden. The analysis of financial stability is also affected in several ways. Banks are conducting business in an increasing number of countries, and this makes greater demands on coordination in terms of regulatory structures, supervision and contingency planning for crisis management. The infrastructure for payments is also becoming more transnational, creating an increased need for countries to establish common rules for the activities.

The Riksbank participates in many international committees and working groups – 130 of them in all – with the aim of influencing ongoing discussions, particularly as regards the design of international standards and regulations, and

to exchange experience with other participants. These committees and working groups cover the full range of the Bank's activities.

The European System of Central Banks (ESCB) is a key arena in this context, and the Riksbank is active at many levels, although Sweden is not a member of the euro area. The Riksbank is also playing an active part in other respects in the European Union (EU), the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Group of Ten (G10) and the Organization for Economic Cooperation and Development (OECD).

Some of the Riksbank's international activities take the form of direct staff contacts and exchanges with other central banks, as well as at conferences and seminars.

■ Maintaining the value of money – price stability

Activities in 2006

During the year, the Riksbank's Executive Board had seven monetary policy meetings at which interest rate decisions were taken. In May, a booklet entitled "Monetary Policy in Sweden" was published, describing the Bank's monetary targets and strategies. The main purpose of this publication was to explain how the Riksbank's establishment of interest rates allows scope for taking both inflation and the real economy (growth, unemployment, employment, etc.) into account. It was pointed out that deviation from the inflation target may sometimes be permitted. In a successful monetary policy, inflation is normally close to target over a two-year period, while inflation and the real economy do not fluctuate excessively.

Another monetary policy milestone was in March, when the Executive Board decided to publish three Inflation Reports a year instead of four. The reason was that the period between the two reports previously published in the autumn was considered to be too short. The Riksbank's forecasting resources can be used more effectively if the Inflation Reports appear at more regular intervals throughout the year.

During the year, the members of the Executive Board held 18 monetary policy speeches.

In January 2007, the Executive Board approved certain changes in the monetary policy process, the most important of which was that, in the future, the Board will present its own views on an appropriate interest rate path when the inflation forecasts are published. As a result, in the future forecasts for inflation and other aspects of the economy will be based on the Board's own interest rate path and not, as previously, on the assumption that the repo rate develops in line with market expectations. The main aim in this context was that the information provided by the Riksbank should be more open and clear, thus making it easier for the general public to understand the Board's arguments when it takes monetary policy decisions.

With the same object, the Executive Board also decided to present the Inflation Report in a new form and that, subsequently, it should have a monetary policy content. As a result, it was also decided to change the name of the report to the "Monetary Policy Report". Finally, the Board decided on new routines for publication of the report. As in the past, the report will be published on the Riksbank's website on the day after a monetary policy meeting. On the other hand, the printed version will appear slightly later. Since the report is to contain information about the monetary policy decision, it must be printed after the Executive Board's meeting.

Monetary policy decisions during 2006

Monetary policy became less expansionary during 2006. In early 2006, the Riksbank considered that the upturn in the business cycle would continue during the year, and then gradually tail off. The situation in the labour market also seemed to have improved. It was considered that cost pressures would be held back by rapid improvements in productivity, despite strong GDP growth. Inflation was low, but was expected to increase, and it was assumed that the repo rate would be raised gradually. The Riksbank decided to raise the repo rate by 0.25 percentage points at the monetary policy meetings in both January and February, with the aim of ensuring inflation in line with the target, and to assist balanced development in the real economy. As a result, the repo rate amounted to 2 per cent. The Board also considered that there were grounds for taking into account the fact that house prices and consumer borrowing had been increasing for some years at a rate that was not considered to be sustainable in the long term. This would mean a risk of substantial fluctuations in the economy at a later stage. One way of tackling this risk was to bring forward changes in the interest rate somewhat, in relation to what might otherwise have appeared to be the most suitable date. The aim was to contribute to a



more gentle adjustment process for house prices, hence safeguarding the inflation rate and stability in the real economy.

In April, new information pointed to somewhat more buoyant international economic conditions than had been anticipated, although the view taken of cyclical developments in Sweden was largely unchanged compared with the beginning of the year. Although the national accounts indicated some weakening of the economy towards the end of 2005, several economic indicators suggested that this was a question of a temporary setback. Inflation had been somewhat higher than anticipated, which was largely explained by surprisingly high energy prices. The Riksbank concluded that this was a temporary upturn, and the monetary policy meeting in April left the repo rate unchanged at 2 per cent.

In June, the latest national accounts statistics indicated that GDP growth in Sweden had improved considerably during the first quarter of the year, due for example to increased exports as a result of a strong international development. In the labour market, there were indications of rising demand for labour. As a result, it appeared that both growth and employment would be developing rather more favourably but, at the same time, energy prices had increased more than expected, resulting in an upwards adjustment of the inflation forecast for the near future. Strong development in the real economy and the inflation outlook, in combination with growing consumer debt and rapidly rising house prices, meant that the Riksbank considered that it was time to take a further step towards a less expansionary monetary policy. The repo rate was raised by 0.25 percentage points to 2.25 per cent.

During the second half of the year, there were further signs that the upturn in the economy was stronger than the Riksbank had assumed. The national accounts statistics indicated that GDP growth in Sweden during the second quarter of 2006 had been considerably stronger than expected. Productivity growth had also been surprisingly high. Furthermore, the Executive Board noted that there had been a definite improvement in the labour market and that employment was moving ahead. Continued satis-

factory business conditions and the prospect of rising inflation over the next few years indicated that further increases in the repo rate would be required. The Board also noted that consumer borrowing and the housing market trend continued to be buoyant. The repo rate was raised by 0.25 percentage points, both in August and October.

In October, although it was considered that inflation would be somewhat below target in a two-year perspective, it was also thought that this was partly the result of a temporary reduction in the rate of inflation due to declining energy prices. When this effect had subsided, inflation was expected to increase.

The repo rate was also raised by 0.25 percentage points in December, in the light of continued positive economic conditions and growing inflation. As a result, the repo rate amounted to 3.0 per cent at the end of the year. Inflation was considered to be close to target in a two-year perspective, assuming gradual increases in the repo rate.

Follow-up

Evaluation of Swedish monetary policy between 1995 and 2005 by Professor Francesco Giavazzi and Professor Frederic Mishkin

The evaluation of monetary policy between 1995 and 2005 assigned by the Riksdag Committee on Finance to Professor Francesco Giavazzi and Professor Frederic Mishkin in November 2005 was presented in November 2006. The Committee on Finance had decided, in April 2005, to commission an external evaluation of Swedish monetary policy on the grounds that the inflation target had applied for 10 years and that no independent evaluation of monetary policy had been carried out previously, following the changes in the monetary policy framework in the 1990s.

The Riksbank generally received high marks in the evaluation. The overall conclusion was that, in a global comparison, the Riksbank is fully comparable with the best central banks in the world. But there was also some criticism – for example lack of clear information in the Riksbank's communication about the role played by

house prices in interest rate decisions. The report also stressed the fact that inflation had been below target in recent years, but at the same time noted that it was presumably difficult to avoid the errors that had occurred in the inflation forecasts.

Outcome and deviations from target in 2006

Inflation was higher in 2006 than in 2005, and within a tolerance band of 1-3 per cent, but was nonetheless below the 2 per cent target. The CPI rose by 1.4 per cent, on average. The rate of inflation was marginally lower in terms of UND1X, at an average of 1.2 per cent during the year. (See Table 1). The fact that CPI inflation was slightly higher than UND1X was, for example, because interest rates increased during the year, resulting in higher interest costs for private housing, which affected CPI inflation but not UND1X inflation. The property tax reduction implemented in 2006 had a reverse effect, and contributed to a reduction of CPI in relation to UND1X.

As in previous years, imported inflation was considerably lower than domestic inflation. UNDINH, which measures the price of domestically produced goods and services, increased by 1.8 per cent on average. In contrast, UNDIMPX, which measures the price of imported goods and services, declined slightly.

One major reason why the average rate of inflation was higher in 2006 than in 2005 was a substantial increase in energy prices. If energy prices are excluded, UND1X inflation increased by an average of 0.5 per cent during the year – the same figure as in 2005.

Why was inflation below target?

The accuracy of forecasts

An obvious starting point in evaluation of monetary policy is a comparison between the inflation outcome and the Riksbank's forecasts, since they provide a basis for the interest rate decisions.

One problem in a comparison of this nature is that the Riksbank's forecasts prior to the second Inflation Report in 2005 were based on the assumption that the repo rate would be unchanged during the forecast period. Subsequently, the forecasts were instead based on the assumption that the repo rate would develop in line with market expectations as reflected in "implied forward rates". This assumption facilitates an evaluation of the forecasts, since it is normally more realistic. The repo rate usually changes during the forecast period, and this affects the inflation outcome. As a result, it is hard to form a precise opinion of the accuracy of the forecasts made, based on the assumption of a constant repo rate. However, in the case of the forecasts made during the first six months of 2005, some guidance is available. In the boxes in the first two Inflation Reports for 2005, alternative forecasts were presented for a repo rate that moved in line with implied forward rates. These forecasts indicate that the difference in CPI inflation on such occasions between these two ways of preparing forecasts was considered to be rather small.

Monetary policy is subject to certain time lags and, as a result, must be future oriented. Therefore, the forecasts made during 2004 and 2005 are particularly relevant for an evaluation of goal fulfilment in 2006.

TABLE 1

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

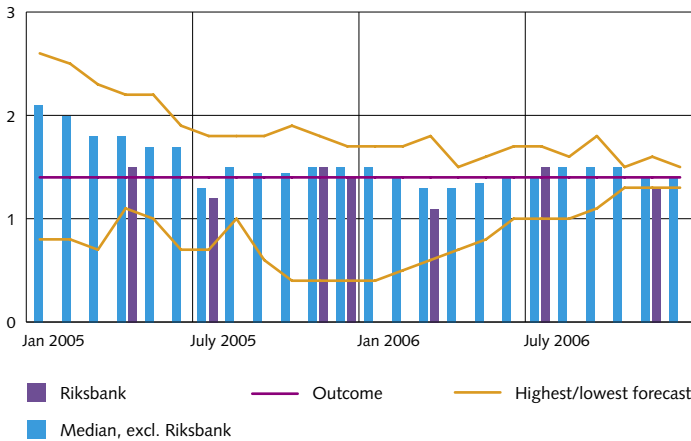
	ANNUAL AVERAGE			STANDARD DEVIATION		
	2006	1995-2006	1995-2006*	2006	1995-2006	1995-2006*
CPI	1.4	1.1	1.3	1.2	1.0	1.0
UND1X	1.2	1.5	1.7	0.3	0.8	0.8
UNDIMPX	-0.2	0.2	0.5	1.2	1.3	1.3
UNDIMPX excl. oil products	-0.8	-0.2		0.5	1.5	
UNDINH	1.8	2.1	2.3	0.5	1.0	1.0

Note: Inflation index measured in accordance with new method introduced as from January 2005.

* Inflation index for the period 1995-2004 measured in accordance with the method employed prior to 1 January 2005 and for 2005-2006 in accordance with the new method. The standard deviation is based on monthly data for inflation (12-month change).

Sources: Statistics Sweden and the Riksbank.

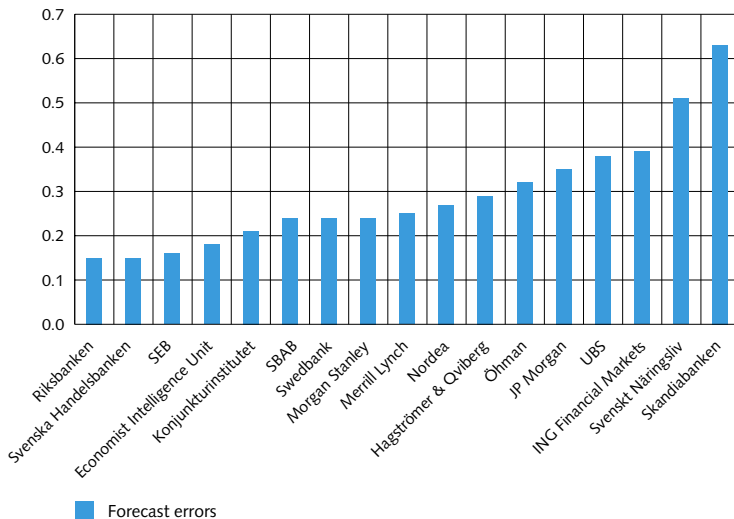
DIAGRAM 1
Inflation forecasts for 2006 (CPI) at various time points.
Forecasts by the Riksbank and other forecasters.
Annual average.



Note: The comparison with other forecasters includes the compilation prepared by Consensus Economics Inc. (which includes the National Institute of Economic Research and Swedish and foreign banks), the Ministry of Finance, the Swedish Confederation of Trade Unions and certain international organisations. The median is the forecast produced by other forecasters which lies in the middle, in terms of size. The median is less affected by extreme values than the average.

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

DIAGRAM 2
A comparison of forecast errors. The Riksbank and other forecasters.
Average forecast errors, CPI inflation in 2006.



Note: Forecast errors are calculated as RMSE (root of the average error squared) for the average error made by the various forecasters for forecasts during 2005 and 2006 for inflation in 2006. The other forecasters included in the comparison are included in the comparison of forecasters in the compilation by Consensus Economics Inc.

Sources: Consensus Economics Inc. and the Riksbank.

During 2004, the Riksbank expected that inflation would increase progressively, in line with growing utilisation of resources in the economy. The rate of inflation was expected to be around 2 per cent by the end of 2006, but this would prove to be an exaggeration. In early 2005, however, the inflation forecasts were adjusted downwards over the entire forecast horizon. Among other things, this was due to a re-evaluation of the price pressure in the economy. It was considered that various structural factors, such as keener competition in several sectors, would restrict inflation more than had been previously assumed. Following this downward adjustment, the inflation forecasts for 2006 were relatively accurate.

A comparison with the results achieved by other forecasters indicates that on the whole, there were relatively small deviations compared with the Riksbank's forecasts. Forecasts made in early 2005 tended to overestimate the rate of inflation in 2006 (see Diagram 1). In the course of 2005, other forecasters also adjusted their inflation forecasts downwards.

If, instead, a comparison is made between the Riksbank and other individual forecasters, the Riksbank was one of those that made the fewest errors in its inflation forecasts for 2006 (see Diagram 2). It is, however, hazardous to draw any general conclusions about the forecasting skills of the various forecasters, because among other reasons the period evaluated is too brief (seven forecast occasions in the case of the Riksbank).

The fact that inflation continued to be low during 2006 was not due to an unexpectedly low rate of growth in the economy. GDP growth during 2005, which may be assumed to have influenced the inflation outcome for 2006, was somewhat higher than the Riksbank had assumed. The majority of the other forecasters also underestimated the extent of the upturn (see Diagram 3). It may be noted that the forecasts in late 2004 and early 2005 were closer to the outcome than subsequent forecasts during 2005. This was, for example, because the national accounts statistics initially indicated unexpectedly weak growth during late 2004 and early 2005. In the Riksbank's view, this represented a

temporary decline in business conditions, but the growth forecast was nonetheless adjusted downwards relatively much. Subsequently, the decline proved to be more temporary than anticipated and, in addition, the outcome for the first quarter in accordance with the revised statistics was not as weak as indicated initially. As a result, the GDP forecasts for full-year 2005 made during the remainder of the year underestimated growth by a relatively considerable amount.

In a comparison with the average forecast error for GDP growth in 2005 made by the various forecasters during 2004 and 2005, the Riksbank is in the bottom half (see Diagram 4). The major forecast error made by the Riksbank was clearly the considerable downward adjustment made in the spring of 2005 as a result of the national accounts statistics which indicated a substantial reduction in GDP growth at that time. As previously noted, this type of comparison of forecasting reliability must be interpreted cautiously.

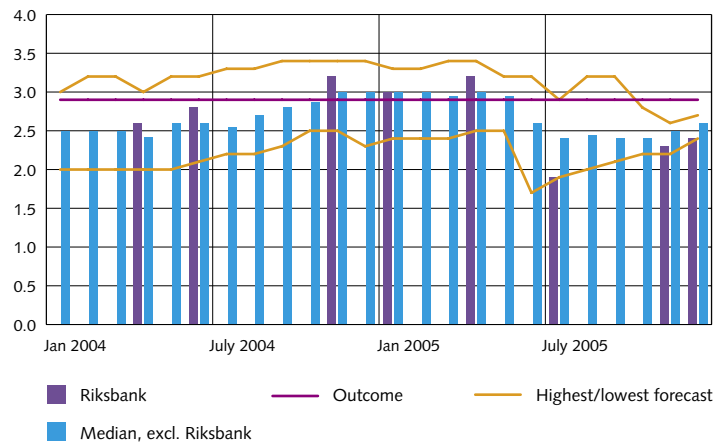
To summarise, inflation in 2006 was lower than the Riksbank had assumed during 2004. On the other hand, the accuracy of the forecasts made during 2005 was satisfactory, although the inflation sub-components did not develop as anticipated. Energy prices were considerably higher than the Riksbank had expected, while the rate of inflation, excluding energy, rose less than expected. At the same time, GDP growth in 2005 was stronger than the Riksbank and most other forecasters assumed in the forecast made during 2004 and 2005. The combination of low inflation and strong growth indicates that changes on the supply side have continued to hold down inflation.

Changes in the supply side of the economy

One important supply-side change has been surprisingly high productivity growth in recent years. The Riksbank's macroeconomic model, which permits interpretation of the reasons why actual inflation differs from the development anticipated by the Riksbank, supports this view. (See also the box Basis for evaluation of monetary policy 2004-2006 published in the 2007:1

DIAGRAM 3

Forecasts for GDP growth in 2005 at various time points. The Riksbank and other forecasters. Annual average.

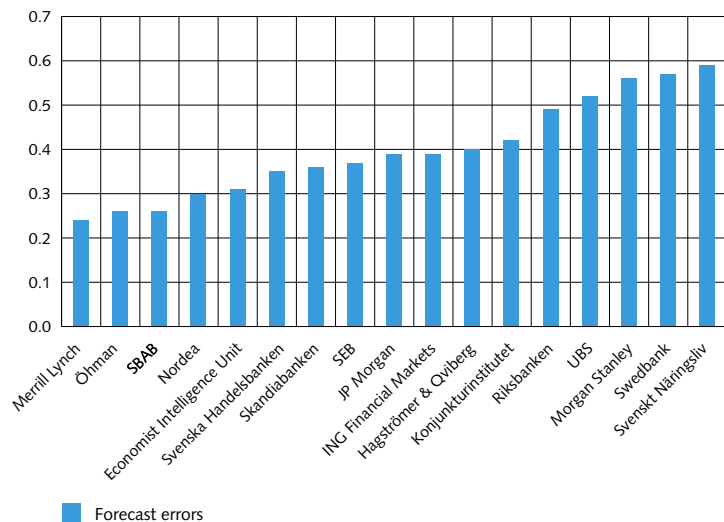


Note: The comparison with other forecasters includes the compilation prepared by Consensus Economics Inc. (which includes the National Institute of Economic Research and Swedish and foreign banks), the Ministry of Finance, the Swedish Confederation of Trade Unions and certain international organisations. The median is the forecast produced by other forecasters which lies in the middle, in terms of size. The median is less affected by extreme values than the average.

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

DIAGRAM 4

A comparison of forecast errors. The Riksbank and other forecasters. Average forecast errors, GDP growth 2005.



Note: Forecast errors are calculated as RMSE (root mean square error) for the average error made by the various forecasters for forecasts during 2004 and 2005 for GDP growth in 2005. The other forecasters included in the comparison are included in the compilation of forecasters in the compilation by Consensus Economics Inc.

Sources: Consensus Economics Inc. and the Riksbank.

Monetary Policy Report.) High productivity growth has meant that production has improved rapidly without any notable increase in companies' unit labour costs. In fact, for a couple of years unit labour costs actually declined in the private sector. During 2005, productivity growth slowed down, which meant that unit labour costs increased slightly. But, overall, unit labour costs have nonetheless developed very favourably in the private sector in recent years (see Diagram 5). Low cost increases have resulted in a limited need to raise prices.

It is not quite clear why productivity has improved so rapidly. One possibility is that the substantial investments in information technology made in the late 1990s have started to bear fruit in recent years. It is also conceivable that higher productivity is because companies in

many sectors are experiencing increased competition, particularly as a result of globalisation, and have considered that they are obliged to rationalise their business. As a result, companies have been able to meet rising demand with more efficient production processes, without needing to recruit new employees to the same extent as in previous upturns. And therefore employment has expanded relatively slowly, compared with rapid growth in productivity.

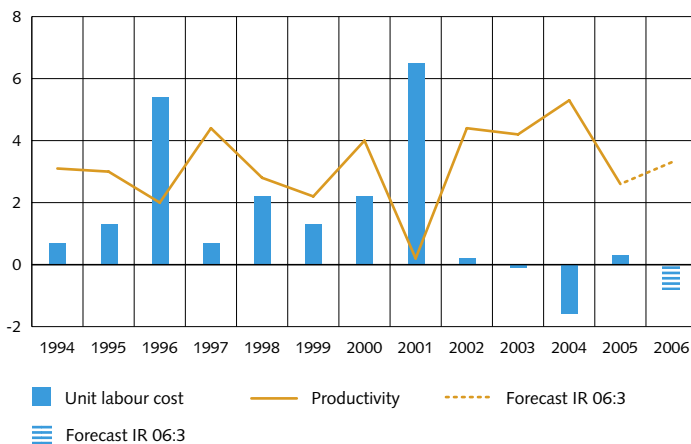
It is extremely difficult to assess the degree of persistence in this type of change in the conditions for production. In the forecasts made during 2004 and 2005, the Riksbank considered that productivity growth would gradually decline in the future, but that it would still continue to be considerably higher than in the 1980s, for example. When the rate of productivity growth dropped during 2005, this was roughly on the scale that the Riksbank had anticipated. But during the first three quarters of 2006, productivity growth increased once more.

These assessments are complicated by the fact that revision of the data may sometimes result in changes in the description of historical developments. For example, the figures for productivity growth for 2004 were revised upwards by a relatively significant amount in November 2006 when Statistics Sweden published the definitive national accounts for 2004.

Another supply-side factor that has contributed to the low rate of inflation is the modest rate of price increases for imported goods. Prices of imported goods and services at the consumer level, have declined since the beginning of 2003, if oil products are excluded. Strong productivity growth has also contributed to the weak price trend for imported products, since they are processed and distributed in Sweden before they are sold to consumers. But there are also other explanations. This is illustrated by the fact that producer prices for imported consumer goods (i.e. the price in Swedish kronor when the goods enter Sweden) have declined for a large part of recent years.

At the same time, producer prices on the domestic market have increased, although at a modest rate (see Diagram 6).

DIAGRAM 5
Unit labour cost and productivity in the private sector.
Annual percentage change.



Note: Calendar-adjusted data. The broken line and bar represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank.

The development of import prices depends, among other things, on the exchange rate. A stronger exchange rate since 2002 has contributed to low import prices for goods. The increased rate of price increases for imported goods during the second half of 2005 also coincided with a weakening of the Swedish krona. Another reason for the decline in import prices would seem to be a change in the pattern of imports. The proportion of imports from “low-cost” countries is growing. Imports from China, for example, have steadily increased in recent years. This shift in imports to cheaper countries of origin helps to reduce the prices paid by Swedish importers, although it is hard to estimate the effect this has on consumer prices. In recent years, the Riksbank has progressively reduced its forecast for the rate of price increases for imported goods and services (excluding oil products) at the consumer level, but nonetheless it was surprisingly weak during 2006.

The Executive Board’s monetary policy decisions in 2004-2005.

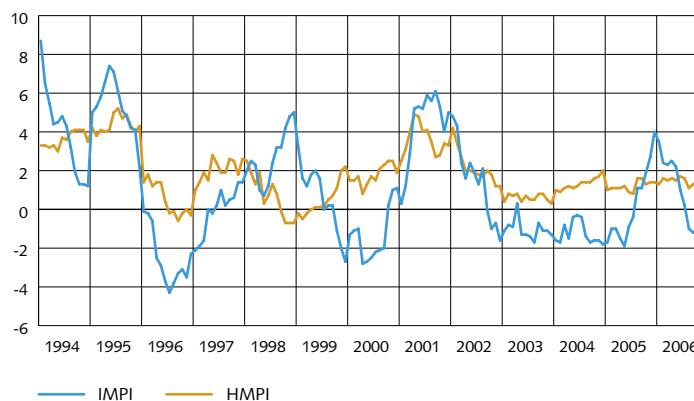
The Board’s decisions on three occasions to reduce the interest rate from 2.75 per cent to 1.5 per cent during these years was based on forecasts and assessments made during 2004 and 2005.

In February and March 2004, the repo rate was reduced by 0.25 percent and 0.5 per cent, respectively, to a level of 2 per cent. Inflation had declined in early 2004. This was partially anticipated, and it was linked to the elimination of the rapid rise in electricity prices from the inflation statistics one year previously. But the rate of inflation was even lower than expected. The Riksbank concluded that the underlying inflation was probably lower than had been assumed previously, despite an increasingly clear international and domestic upturn. Lower import prices, a weaker labour market and higher productivity growth than previously forecast suggested more limited pressure on wages and prices.

The repo rate was left unchanged for the remainder of 2004. During the summer and autumn, the Riksbank’s view of economic conditions in Sweden became more optimistic, in

DIAGRAM 6

Producer prices of consumer goods according to the domestic price index (HMPI) and the import price index (IMPI), 1994-2006. Annual percentage change.



Source: Statistics Sweden.

view of new information regarding increasingly strong international and domestic developments. It was considered that there was reason to expect business conditions to continue to improve in the future, and the growth forecast was adjusted upwards for both 2004 and 2005. Thus, inflationary pressures were expected to increase, in line with growing utilisation of resources. This suggested that monetary policy would gradually need to be less expansionary. However, favourable cost factors, for example as a result of continued high productivity growth, supported the view that the increase in the inflation rate would be modest.

In early 2005, the available information indicated that growth had stabilised somewhat. The economic trend in Sweden was still considered to be satisfactory, although it was presumed that it would enter into a calmer phase. Resource utilisation was expected to increase gradually, resulting in higher inflation, although it was considered that the increase in inflation would be slower than the Riksbank had previously assumed. It was thought that various structural factors, such as more intense competition, would restrict inflation more than had been envisaged previously.

During the spring of 2005, there was growing uncertainty about the strength in the economy.

Interest rate decisions in 2004

- 5 February: The repo rate was reduced by 0.25 percentage points to 2.5 per cent. Kristina Persson entered a reservation against this decision and considered that the repo rate should be reduced by 0.5 percentage points, in view of the fact that the inflation forecast in December 2003 had already indicated scope for a reduction of the rate and that subsequent developments pointed to even weaker price pressures, for example as a result of continued improvement in productivity growth.
- 31 March: The repo rate was reduced by 0.5 percentage points to 2.0 per cent. Villy Bergström and Eva Srebjer made a reservation against this decision since they considered that the repo rate should only be reduced by 0.25 percentage points. They advocated a greater degree of caution in application of monetary policy incentives in order to discourage increased debt on the part of consumers, for example. Another reason was the uncertainty about the strength and persistence of the productivity trend and increasing international competition which had reduced inflation, despite expansionary economic policies in many parts of the world.
- 28 April: The repo rate was maintained at 2.0 per cent.
- 27 May: The repo rate was maintained at 2.0 per cent.
- 23 June: The repo rate was maintained at 2.0 per cent.
- 19 August: The repo rate was maintained at 2.0 per cent.
- 13 October: The repo rate was maintained at 2.0 per cent.
- 8 December: The repo rate was maintained at 2.0 per cent.

Interest rate decisions in 2005

- 27 January: The repo rate was maintained at 2.0 per cent.
- 14 March: The repo rate was maintained at 2.0 per cent.
- 28 April: The repo rate was maintained at 2.0 per cent.
- 20 June: The repo rate was reduced by 0.5 percentage points to 1.5 per cent.
- 23 August: The repo rate was maintained at 1.5 per cent.
- 19 October: The repo rate was maintained at 1.5 per cent. Villy Bergström, Lars Nyberg and Eva Srebjer made a reservation against this decision and considered that the repo rate should be increased by 0.25 percentage points in view of the fact that there were increasing indications of a stable and lasting upturn in the economy and that it was now desirable to initiate the gradual tightening of monetary policy that they considered would be necessary in the future. This would reduce the risk of a further weakening of the Swedish krona as a result of higher interest rates in Europe, and an increase in interest rates would signal to the housing market that the current rate of price increases was not sustainable.

Several indicators pointed to a weaker trend than had been expected. In June, the repo rate was reduced by 0.5 percentage points to 1.5 per cent. The main reason was that the latest national accounts statistics indicated that the economy had expanded much more slowly than anticipated in late 2004 and early 2005. As a result, the growth forecast was adjusted downwards relatively substantially in the short term. It was considered, however, that this was a temporary slowdown, and that the overall indication was relatively satisfactory future growth.

The repo rate was left unchanged during the remainder of 2005. The view that weak growth was a temporary phenomenon received increasing support and, furthermore, the revised statistics indicated that the economic trend in late 2004 and early 2005 was somewhat stronger than initially envisaged. A more expansionary monetary policy contributed to some upward adjustment of the forecasts for growth and inflation. It was still considered that inflation would increase, although at a rather modest rate. It was increasingly clear that the economy was approaching a stage where monetary policy would have to be revised in a less expansionary direction.

Inflation expectations

If inflation expectations are stable and are close to the inflation target over the next couple of years, this is a sign that the general public has confidence in the Riksbank's achievement of its objectives. A high degree of confidence in the inflation target increases the possibilities of taking into account factors other than inflation when drawing up monetary policy – for example growth and employment. Diagram 7 indicates inflation expectations for 2008 on the part of money market agents, employer and employee organisations and purchasing managers in trade and manufacturing industry. Although inflation expectations increased somewhat during 2006 on the part of most of these groups, there still appears to be considerable confidence in the inflation objective. Inflation expectations for the next couple of years are solidly centred on the 2 per cent target.

Summary

Inflation was higher in 2006 than in 2005, and was within the 1-3 percent tolerance range, but was nonetheless below the target. The inflation outcome for 2006 was lower than the Riksbank had anticipated in the forecasts prepared during 2004, but was fully in line with the forecast made during 2005. The inflation sub-components did not develop as expected, however. Energy prices contributed to an upward pressure on the rate of inflation to a greater extent than had been predicted. At the same time, if energy prices are excluded, inflation was less than anticipated.

The low rate of inflation was not due to weak growth. On the contrary, GDP growth in 2005, which may be assumed to have affected the inflation outcome in 2006, was robust, and was underestimated in the Riksbank's forecasts.

The combination of low inflation and a high growth rate indicates that the economy was affected by supply-side changes. Above all, it related to productivity growth, which was again surprisingly high. High productivity growth helps to hold down firms' costs, thus permitting increased demand without excessive pressure on prices. In other words, the Swedish economy has benefited from favourable changes in recent years.

As a result of modest inflationary pressures, the Riksbank has conducted a strongly expansionary monetary policy, despite robust growth. The period of interest rate reductions that commenced in late 2002 continued during 2004 and 2005. The interest rate was reduced twice during the spring of 2004, and once in mid-2005. The reductions during 2004 were implemented because inflation had declined more than expected and the underlying inflation pressure was probably less than had been assumed previously. The reason for the interest rate reduction in 2005 was that there were signs that the economy had weakened considerably, even if this was temporary.

Following these reductions, the interest rate was at a historically low level of 1.5 per cent. During 2005, the Riksbank nonetheless expected that the rate of inflation would continue to be

DIAGRAM 7

Expectations of various economic agents during 2006 for inflation in 2008, per cent.



Source: Prospera Research AB.

low during 2006, even if there would be some increase. This assessment was based on the assumption that various structural changes – for example high productivity growth – would continue to have a restraining influence. At the same time, demand was expected to increase strongly, partly as a result of an expansionary monetary policy. The low interest level had also resulted in a rapid increase in consumer borrowing and house prices. As a result, it was not considered reasonable to try to push up inflation at a faster rate by means of further interest rate reductions. Instead, in the autumn of 2005 it became increasingly clear that the interest rate would need to be increased gradually in order to ensure inflation in line with the target in a two-year perspective.

■ A safe and efficient payment system

Financial stability

Activities in 2006

A high proportion of the Riksbank's financial stability activities are linked to the Financial Stability Reports which are published twice a year. These reports provide a cohesive assessment of risks and threats to the financial system, and the ability to withstand them.

Another way for the Riksbank to publicise its analyses takes the form of public speeches. During the year, members of the Executive Board held 12 speeches in the financial stability context.

Assessment of financial stability in the reports

According to the analysis made by the Riksbank during the year, and presented in both reports, there was further improvement in the ability to withstand possible disruptions. This was because the four major Swedish commercial banks, which constitute the core of the financial system, continued to improve their profitability. At the same time, the Riksbank also considered that the risks in the banking system were virtually unchanged.

The chief reason for the improvement in bank earnings was the increased turnover on the stock market and higher share prices, which contributed to high commission income. High growth in lending operations benefited the banks' net interest income (income from lending less expenses for deposits and borrowing). Lending to both companies and households increased, but some decline in the rate of growth in lending operations could be noted towards the end of the year. House prices and the price of commercial properties also continued to increase at a rapid rate. At the same time, the overall solvency of companies and private consumers was satisfactory. Studies of borrower categories are a key aspect of this analysis, since borrowers affect the banks' credit risk, which is the greatest risk to which the banks are exposed.

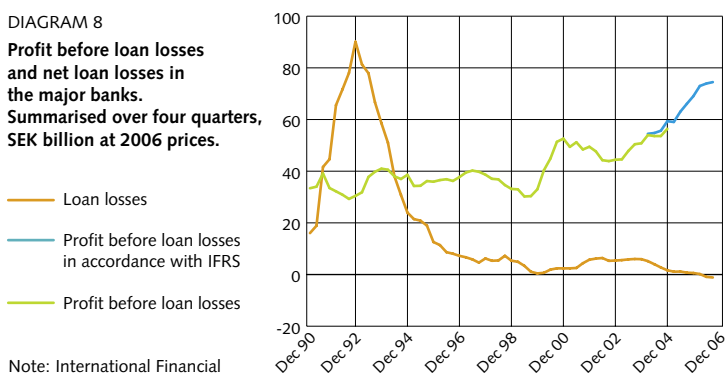
Risk areas for financial stability

The Riksbank made certain changes in the way the analyses are presented in the year's second report. The Riksbank decided to focus on a number of areas in which a build-up of risk had been noted, with the aim of improving the clarity of the analysis. None of these risks was considered to represent an immediate threat to financial stability but, in the event of a deterioration in the economic situation, these risks have a more serious potential.

In the financial markets, the Riksbank saw a risk of rapid price adjustments, since investors were paying risk premiums which were low in historical terms. This was apparent, for example, in the fact that interest rate differentials between risk-oriented bonds and government bonds was low, in historical terms. As a result, increased financial anxiety might lead to the rapid sale of risky assets by investors, leading to greater turbulence and reduced liquidity.

The Riksbank concluded that the significant increase in house prices and household debt would not be viable in the long run. Price trends in the commercial property sector were also

DIAGRAM 8
Profit before loan losses and net loan losses in the major banks. Summarised over four quarters, SEK billion at 2006 prices.



Note: International Financial Reporting Standards (IFRS).

Sources: Commercial bank earnings reports and the Riksbank.

considered to represent a risk. It was noted that prices in this sector had increased rapidly, and the Riksbank considered that the fact that this could not be wholly explained by increased rents and a decline in vacancies might indicate an increased risk element in such investments.

The Riksbank noted that there was a substantial increase in corporate acquisitions financed by borrowing via venture capital companies. Higher prices for the takeover objects in combination with a higher degree of borrowing contributed to increased risk.

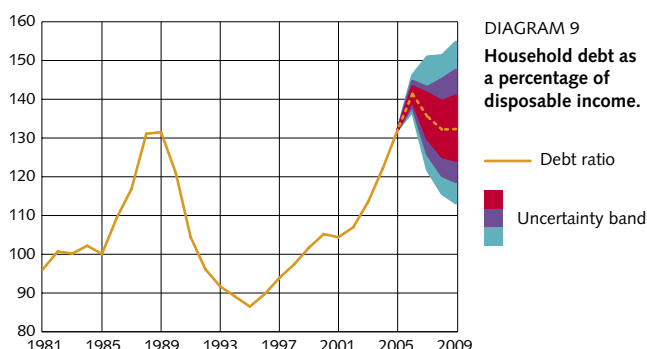
Developments in the Baltic countries were also identified as a risk since several Swedish banks have considerable activities in this area. There was a substantial increase in borrowing in the Baltic region, even if this was from a low starting point.

In a separate article in the stability report, the Riksbank presented its views on the significant growth of trading in loan derivatives and the potential risks for the stability of the financial system. The Riksbank concluded that the risks involved in loan derivatives were limited, on the whole, but that the lack of transparency and the risk of potential risk concentrations gave cause for some concern.

New model for quantifying the ability to withstand shocks

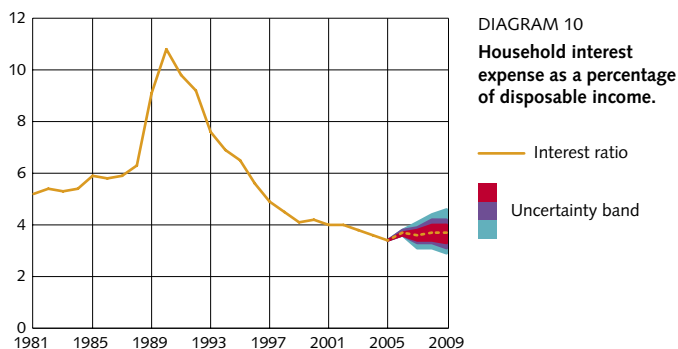
During the year, the Riksbank developed a new model for assessing how events which were less probable, but nonetheless fully possible, could affect the four major Swedish banks' credit risk ("stress tests"). This model was presented in an article in the year's first stability report.

In connection with the year's second stability report, the Riksbank conducted two stress tests to assess the commercial bank's ability to withstand shocks. The tests showed how the credit risks in the banks' portfolios would be affected in two different scenarios, both linked to the current risk scenario. The first scenario assumed a general deterioration in credit ratings in the



Note: The debt ratio indicates household debt in relation to disposable income. The uncertainty band indicates the expected range for the debt ratio, with probabilities of 50 percent, 75 per cent and 90 per cent, assuming the Riksbank's main scenario in the 2006:3 Inflation Report. Hence, the uncertainty band reflects uncertainty as to how household borrowing will be affected by changes in interest rates and disposable income. The dotted line indicates the forecast in the main scenario.

Sources: Statistics Sweden and the Riksbank.



Note: The interest ratio indicates household interest expense in relation to disposable income. The uncertainty band indicates the expected range for the debt ratio, with probabilities of 50 percent, 75 per cent and 90 per cent, assuming the Riksbank's main scenario in the 2006:3 Inflation Report. Hence, the uncertainty band reflects uncertainty as to how household interest expense will be affected by changes in interest rates and disposable income. The dotted line indicates the forecast in the main scenario.

Sources: Statistics Sweden and the Riksbank.

Baltic countries, while the second scenario examined the effects of a deterioration in credit quality as a result of a weaker economic trend. In both cases, the four major banks coped satisfactorily with developments of this nature. Although the margin for coping with further negative occurrences was reduced, the ability to withstand setbacks was still considered to be satisfactory.

Evaluation of the financial infrastructure

One of the Riksbank's assignments is to monitor the financial infrastructure. This is achieved, for example, by means of the Riksbank's annual evaluation of the key clearing and settlement systems in comparison with joint international standards. The systems covered are Bankgirocentralen, VPC and, to some extent, Stockholmsbörsen. The Riksbank also evaluates its own RIX payment system in the same way. The new feature in 2006 was that the evaluations of both VPC and Stockholmsbörsen were conducted in cooperation with Finansinspektionen. It was concluded that, on the whole, the Swedish financial infrastructure complies satisfactorily with international standards.

Establishing the capacity to withstand shocks in the financial systems

The Riksbank is employing "continuity planning" in its preparations to establish the ability to withstand setbacks in the financial systems, and emergency solutions in the event of possible disruption. One aspect of this task took the form of an unannounced continuity exercise in June at the Financial Stability Department (FSD), with the aim of testing the existing crisis management routines, for example. This exercise indicated that the routines functioned satisfactorily for the most part, but that more needed to be done as regards updating of the continuity plans and anchoring them with staff.

Crisis management cooperation

As banking activities and the location of new activities become increasingly transnational, there is a growing risk that financial crises may spread from one country to another. The Riksbank is participating in international cooperation

in the crisis management area in order to facilitate the handling of potential crises. This cooperation takes place in different ways, for example in the form of agreements and crisis exercises. During the spring of 2006, there was a crisis exercise in the EU in which the Riksbank participated, both in the preparations and in the exercise itself. The participants included representatives of central banks, ministries of finance and supervisory authorities in the 25 EU countries.

In December 2006, the Riksbank signed a memorandum of understanding (MoU) with the Estonian, Latvian and Lithuanian central banks. Several Swedish banks have substantial activities in these countries. The agreement is designed to facilitate the handling of a potential crisis, and it focuses on practical issues. The MoU stipulates that the central bank that first identifies a potential crisis must contact the other central banks, and it specifies which central bank is to be responsible for coordinating information and contacts. It also indicates what type of information is relevant. This MoU supplements the previously made agreements between authorities in the EU as to how financial crises in banks with cross-border activities are to be managed.

The Riksbank has also arranged three seminars in the financial stability area, with participants from other countries. The first seminar focused on the challenges – regarding supervision, emergency credits, crisis management and the possible allocation of crisis costs – facing the authorities in the light of the emergence of an increasing number of genuinely transnational banks. The second seminar was concerned with the need for new legislation to deal with credit institutions in a state of crisis. The third seminar focused on how cooperation between various supervisory authorities works in different countries.

Regulatory structures and standards

An effective regulatory structure is a key requirement for financial stability. The Riksbank has possibilities to influence the establishment of rules via a number of different channels. During 2006, the Riksbank participated in two government reports in this area. One was the Securities

Market Report, which resulted in new rules for securities trading. The other was the Insurance Companies Report which proposes new rules for insurance companies.

During 2006, the stability reports were also used to present the Riksbank's views on a number of issues involving regulations and standards. One article concerned the dramatic growth in hedge fund trading. The Riksbank made a contribution to the ongoing discussion of the need for regulations in this area. The Riksbank's conclusion was that there was no cause to introduce additional regulation for hedge funds, provided that the hedge funds' counterparties were in a position to control their risks.

The limited abilities of Swedish authorities to deal with problematical institutions was another area which the Riksbank investigated. The course of events in the problem-fraught Custodia credit institution made this question particularly topical during the year, and clarified weaknesses in the existing regulatory structure of which the authorities were already aware. The Riksbank considered that these weaknesses were sufficiently serious to impede the handling of problems involving a threat to the financial system, for example a future bank crisis. The Riksbank advocated new legislation in this area.

The Riksbank also submitted 23 consultation opinions regarding regulations in the financial sector. One of the most important of these involved the Ministry of Finance's memorandum containing proposals regarding new capital coverage rules for credit institutions and securities companies. On the whole, the Riksbank welcomed this proposal since it permitted more effective links between the risks incurred by a financial institution and its capital requirements.

As a result of its international assignments, the Riksbank is contributing to the work on common standards and regulatory structures in the financial stability area. During the year, the Riksbank participated, for example, in various international committees, including the Basel Committee, in which a representative of the Riksbank headed international efforts to work out an updated version of the Basel Committee's "core principles" for effective supervision. The

Riksbank also contributed to a number of international reports. Several members of the Executive Board gave speeches in international contexts and discussed questions in this area, including topics such as banking reforms and financial crises in an international perspective.

Follow-up

The financial system is stable, provided that it can handle its key functions. It is only when a serious crisis occurs that it can be concluded that the Riksbank's assignment to promote a safe and efficient payment system has not been fulfilled. But even the absence of serious crises does not necessarily mean that the Riksbank has fulfilled its assignment, since considerable time may elapse before a risk results in a crisis. As a result, this is more a question of whether the Riksbank's focus has been on the right questions and if the right conclusions have been drawn, if confidence in the Riksbank's analysis has been sufficiently high, whether the Bank's efforts have been effective, and whether its contingency planning has been sufficient to manage a financial crisis. One way of following up these questions is to conduct a dialogue with the market participants. As a result, the Riksbank has regular meetings with market participants, as has also been the case during 2006.

During 2004, the Riksbank engaged a group of external experts to evaluate the stability reports. This group concluded that the Riksbank's stability process was relevant and that it focused on the right questions. But the group also made some suggestions for improvements. The Riksbank's implementation of improvements continued during 2006. One aspect of this has been that the Riksbank has continued to apply stress tests (see above) to develop its analysis of banks. A progress check with the Swedish banks met with a positive response, and confirmed that the Riksbank's model was achieving reasonable results.

The Riksbank has modified its presentation of the risk scenario in the stability reports, in order to achieve greater clarity. The summary is utilised to focus on a number of areas in which the Riksbank considers that risks are building up. The presentation of the Riksbank's assignment



in the financial stability area was also modified in the stability reports by making it clearer and easier to understand. The Riksbank carried out a questionnaire survey in connection with publication of the year's second report, with the object of evaluating the report and the changes that had been made. This survey was targeted at key personnel in the four major Swedish banks and analysts in the financial sector who monitor the banks. This evaluation resulted in satisfactory ratings for both the report as a whole, and the various sections and articles. It was considered that the changes made were an improvement, and the articles were regarded as relevant. The evaluation also indicated that the Riksbank's assessment of the risk scenario complied with the respondents views. Suggestions for improvements included a more extensive assessment of the markets in the other Nordic countries and the Baltic countries.

The RIX payment system

Activities in 2006

The daily turnover in K-RIX – that is to say the system for the settlement of large-value payments in Swedish kronor averaged SEK 491 billion during 2006. The corresponding figure for E-RIX – the system for euro settlements – was EUR 8 billion. The K-RIX turnover increased by about 12 per cent, while the E-RIX balance was unchanged in comparison with the previous year. The number of transactions per day in K-RIX increased from 5,800 in 2005 to 6,700 in 2006. This increase in volumes was due to an agreement in the banking sector to dispatch more payments separately rather than net, in a block. During 2006, an additional bank joined the K-RIX system, resulting in a total of 21 participants.

The Riksbank has decided not to join Target2, the ESCB's new system for payments in euro. The Riksbank participated in the original Target in preparation of possible participation in the monetary union. Following the referendum in Sweden in 2003, membership of Target can no longer be justified as a preparatory measure. Participation in the new Target2 would

need to be financed in full by the Swedish banks, and they have not shown any interest in this. As a result, the Riksbank terminated settlements of payments in euro on 31 December 2006. Instead, the banks that utilised the Riksbank's E-RIX system have been offered an opportunity to participate in the Finnish system. As a result, several banks have shifted their euro payment operations to Finland, while a few banks have decided to use other central bank systems in the euro area. Hence, as from 1 January 2007, the Riksbank only offers settlement of payments in Swedish kronor.

The predominant activity during the year has been the FRIX project (the future RIX), in which the aim is to replace the RIX technical platform and systems. This project is justified partly in terms of cost and partly due to the need to modernise both the hardware and the software. Operating costs for RIX are expected to increase significantly during 2007 due to the phasing out of the Bank's other mainframe systems. As a result, the Riksbank has been obliged to raise charges as from 2007 in order to cover costs. Replacement of systems and platforms will hold down future cost increases.

The new system was delivered to the Riksbank during the autumn of 2006. The production start has been postponed until October 2007, partly because the supplier underestimated the complexity of the systems solutions.

In parallel with this project, the Riksbank is studying the question of pricing for the new system, in order to achieve full cost coverage.

Follow-up

Availability in the RIX system during 2006 amounted to 99.87 per cent, which was slightly better than the target of 99.85 per cent. The Riksbank also met its cost coverage target for K-RIX in 2006. Revenues amounted to a total of SEK 24 million.

The most recent customer survey for the RIX system in 2005 indicated that all customers had considerable confidence in operations. The target of 80 per cent customer satisfaction was fulfilled by a considerable margin.

Banknotes and coins

Activities in 2006

Cash management

During 2006, the Riksbank virtually completed the process of establishing the conditions for a new structure for cash management. The Riksbank's cash management activities are now centred on two offices, and the banks have an opportunity to establish their own cash depots. During the year, five banks reached agreement on the development of a strategy for cash management in which depots will be operated by the jointly owned BDB Bankernas Depå AB. In addition, 25 savings banks operate a depot via the jointly owned company Bankservice Syd AB. At 1 January 2007, three bank-owned cash depots which received interest-cost compensation from the Riksbank were in operation. The banks plan to open more depots during 2007.

During 2006, the Riksbank established a cash management council which is to provide a forum for discussion of cash management issues in society as a whole. Apart from the need for a discussion forum for cash management issues, the considerable number of security transport robberies directed chiefly at the banks' transportation of cash to replenish ATMs during 2005 and security issues provided additional incentives for joint action by the parties concerned. The council is headed by the Governor of the Riksbank and comprises representatives of the banks, security transport companies, the retail sector, trade unions, and the public authorities concerned, including the National Police Board, the Swedish Work Environment Authority and Finansinspektionen. At its first meeting, the cash management council decided to form five working groups which were assigned to tackle five issues which are crucial for cash management: security, the cash management structure, banknotes and coins, destruction and cash withdrawals in retail stores.

Banknotes and coins

During the year, the Riksbank introduced new and more secure 50 and 1,000-krona notes. The new notes incorporate new security features



which make them more difficult to counterfeit. The new 1,000-krona banknote is the first of its kind in the world, with the security feature Motion "a moving image in the striped band". When the note is tilted, the image appears to move. In addition, both the new 50 and 1,000-krona notes have a foil strip and a see-through image, for example. The older versions of these banknotes continue to be legal tender.

The silver-coloured 50 öre coins which ceased to be valid after 31 December 2005, have been collected and sold for smelting. 125 million of the 376 million 50 öre coins in circulation were received by the Riksbank during the withdrawal period. In total, they weighed more than 560 tons.

During 2006, the Riksbank issued a commemorative coin to celebrate the 150th anniversary of the railway system in Sweden.

During 2006, the Riksbank completed a procurement process for the manufacture of Swedish banknotes and commemorative coins. Crane AB and AB Myntverket were the two companies awarded contracts for the supply of banknotes and commemorative coins, respectively.



The Riksbank's subsidiaries

In recent years, the Riksbank's subsidiaries have focused on the phasing out of activities. During 2006, a merger was implemented to facilitate this process. The remaining subsidiaries after the merger are Svensk Kontantförsörjning AB (with its subsidiary Pengar i Sverige AB), Tumba Kulturfastigheter AB, and Fastighets AB Växjö Lågan 22.

Svensk Kontantförsörjning AB and its subsidiary are being liquidated and the Board of Tumba Kulturfastigheter AB is to propose that its owner, Sveriges Riksbank, should also approve liquidation of this company. Furthermore, the Riksbank's Executive Board plans to sell its shares in Fastighets AB Växjö Lågan 22 during 2007.

Follow-up

The total value of cash in circulation is continuing to increase, probably due to overall economic growth. Seen over a five-year period, however, the rate of increase is steadily declining as other forms of payment become increasingly attractive. The value of coins in circulation declined during 2006. When the silver-coloured 50 öre coin ceased to be valid, the general public turned in large quantities of coins of all denominations to the Riksbank, via the commercial banks. As a result, these coins are no longer in circulation but are held in the Riksbank's stocks until they are required for circulation once more. During 2006, more banknotes were destroyed than in the preceding year. This is because the Riksbank made special efforts to improve the quality of the 20 kronor notes in circulation in Sweden. A

large number of worn banknotes were exchanged for new notes, and the worn notes were destroyed.

The face value of counterfeit banknotes withdrawn from circulation amounted to SEK 339,360, which is a reduction compared with the preceding year. By international standards, Swedish banknotes are forged on a relatively limited scale. This is partly because the krona is a minor currency, and partly because Swedish banknotes maintain a satisfactory level of security.

In November, the Riksbank commissioned a survey of the general public's opinions about Swedish banknotes and coins, and their use of cash and card facilities. Among other things, the results of this survey will form part of the basis for decisions about possible changes in the range of banknotes and coins. Most of the respondents were broadly satisfied with the existing values of banknotes and coins, although two-thirds felt that a 50 öre coin was not required. The corresponding figure for the 1,000 kronor banknote was one in ten. The overwhelming majority of the respondents considered that the banknotes were of satisfactory or very satisfactory quality, with the best scores for the high-value notes. There were fewer positive responses in the case of the 20 kronor banknote, however, compared with the other values. Slightly less than half the respondents considered that the quality of the 20 kronor banknote was satisfactory or very satisfactory, while one third regarded it as acceptable. Virtually all the respondents sometimes use cash for their payments, Nine out of ten sometimes pay by card.

TABLE 2

Banknotes and coins	2006	2005	2004	2003	2002
Average value of banknotes and coins in circulation (SEK billion)	106.5	105.6	102.7	101.0	98.6
Average value of coins in circulation (SEK billion)	5.4	5.5	5.3	5.1	4.8
Number of banknotes in circulation (million)	372	366	359	357	343
Number of banknotes destroyed (million)	128	111	107	126	217
Number of counterfeit banknotes (number)	996	1 849	2 054	1 832	1 865
Banknotes and coins in circulation at 31 December as a percentage of GDP (per cent)	3.1	3.2	3.2	3.4	3.4

Source: The Riksbank.

■ Asset management

Results for 2006

During 2006, the market value of the Riksbank's financial assets declined by approximately SEK 12.6 billion to SEK 182.5 billion.

TABLE 3
Changes in the Riksbank's financial assets during 2006, SEK million.

Exchange rate	-11 528
Interest-bearing investments	3 235
Gold holding	1 410
Dividend payment to the Treasury	-5 300
Other	-437
	-12 620

The main reason for the reduction in financial assets was the strengthening of Swedish kronor in relation to the basket of foreign currencies held by the Riksbank, resulting in a loss of SEK 11.1 billion, principally due to depreciation of the US dollar. There was an additional decline in the asset volume as a result of the dividend payment to the Treasury in May, which amounted to SEK 5.3 billion.

This negative trend was counteracted to some extent by the income generated by assets. In all, these revenues amounted to SEK 3.2 billion, of which SEK 5.6 billion consisted of interest income and a negative figure of SEK 2.4 billion was due to a negative price impact. Both these factors reflected a general increase in interest

rates during the year. Management of foreign exchange reserves at a tactical level made a positive contribution of SEK 116 million.

The increase in gold prices also made a positive contribution to assets. The total value of the gold holding increased by SEK 1.4 billion, notwithstanding the Riksbank's reduction of its holding from 169 tonnes to 159 tonnes in accordance with the Central Bank Gold Agreement, under which a number of European central banks determine how much gold each central bank may sell.

The Riksbank's assets are divided into four overall portfolios (see Table 4), of which the foreign exchange reserve is the largest and represents the greater part of the Bank's asset volume. In addition, assets comprise a gold portfolio, a monetary policy portfolio and a portfolio consisting of other assets, for example participation in the IMF and shares in BIS and SWIFT.

Asset management decisions in 2006

Decisions taken by the Executive Board regarding asset management are taken at two different levels, strategic and tactical. The long-term orientation of asset management is determined at the strategic level, while short-term deviations from the long-term goal are made at the tactical level, in order to improve the return on the

TABLE 4
Return on the Riksbank's asset management operations in 2006.

	Market value (SEKm)	Return (SEKm)	Return, excl. exchange-rate impact (SEKm)	Return, excl. exchange-rate impact (%)
Foreign exchange reserve	145 698	-8 377	2 990	2.0
Gold portfolio	22 222	1 410		
Monetary policy portfolio	11 653	168	168	2.2
Other financial assets	2 953	-84	77	2.6
	182 526	-6 883	3 235	1.9

Riksbank's assets. These operations are conducted by the Market Operations Department, within the framework of the deviation mandates and risk limits stipulated by the Board.

Asset management at the strategic level

The Executives Board's decisions regarding the long-term orientation must be taken in a manner that guarantees fulfilment of the Riksbank's statutory objectives and assignments for price stability and financial stability. This assumes that the Riksbank's assets are invested in a manner that ensures satisfactory liquidity. Provided that this requirement is fulfilled, asset management is to generate as high a return as possible. Decisions regarding the allocation of

the foreign exchange reserve among the currencies and assets of various countries have the greatest impact on the appreciation of the value of assets.

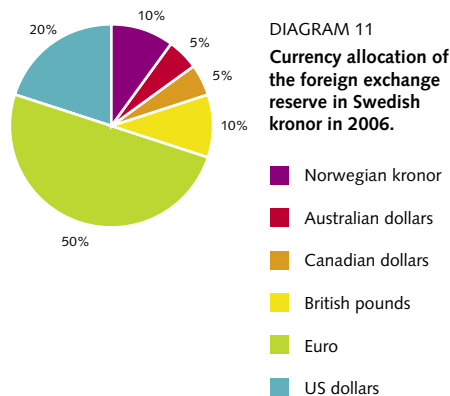
Foreign exchange allocation

Most of the Riksbank's interest-bearing assets in foreign currencies are held in the foreign exchange reserve, whose value amounted to SEK 145.7 billion at 31 December.

The currency risk – that is to say the risk that the value of assets in SEK changes when the value of the krona changes in relation to other currencies – is the Riksbank's largest single financial risk. The Riksbank minimises the currency risk in SEK, and does not speculate in currency fluctuations. In order to reduce the currency risk, the Riksbank has holdings in various currencies. In the long term, the impact of exchange rate fluctuations should be evened out, since it is reasonable to assume that there is no systematic trend over time for the krona in relation to other currencies.

During 2006, the Executive Board decided to modify the allocation of the foreign exchange reserve with the aim of reducing the currency risk in terms of Swedish kronor. This resulted in a reduction in the proportion of US dollars, and simultaneously an increase in the euro share. The holding of Japanese yen was phased out, while the Norwegian krona was introduced as a new currency. Since the market for Norwegian government bonds is relatively limited, the Riksbank decided not to invest in them but, instead, to confine the currency risk to Norwegian currency. Instead, the capital was invested in US assets, following a decision by the Board. In other respects, the Riksbank's bond allocation corresponds to its foreign exchange allocation (see Diagram 11).

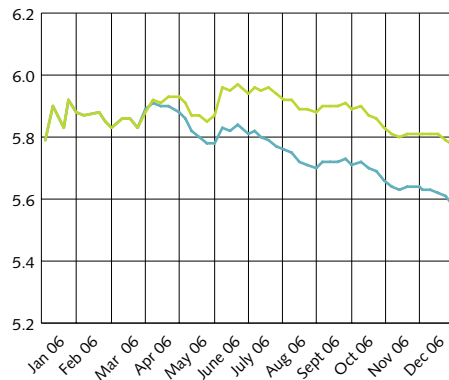
As already mentioned, the decline in the value of the Riksbank's assets during 2006 was due to the appreciation of the Swedish krona against the basket of currencies held in the foreign exchange reserve. The variation in the return, however, was less than would have been the case if there had been no change in the allocation of currencies (see Diagram 12).



Source: The Riksbank.

DIAGRAM 12
Variation in the return on the foreign exchange reserve in SEK in 2006.

— Previous foreign exchange allocation
— New foreign exchange allocation



Source: The Riksbank.

Interest rate and credit risks

In order to increase the return on assets, the Riksbank takes interest rate and credit risks. The interest risk is the way in which the value of assets varies in accordance with interest rate movements. At the strategic level, the Riksbank's interest risk is controlled by means of a modified duration indicator, which indicates the percentage change in the value of the foreign exchange reserve for a one per cent change in the interest level. Since bonds with a longer term often provide a higher return, investors who apply a modified duration may normally expect a higher return on their investments, although there is also a greater risk, since the variation in the return tends to increase in line with the term of the investment.

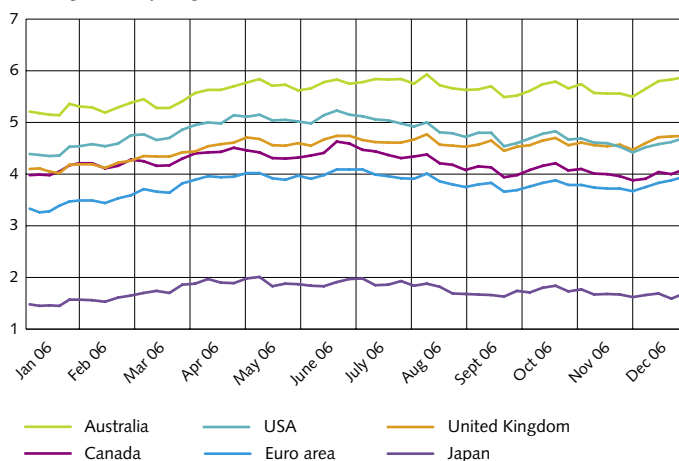
The Executive Board has decided that the total interest-bearing investment is to have an interest risk with a modified duration of 4.0. This decision is designed to achieve a satisfactory long-term return at the expense of somewhat greater variations in earnings. The return depends on the way in which interest rates change in the markets in which the Riksbank invests. During 2006, these markets were characterised by higher interest rates, which resulted in a decline in the value of assets, or a negative price impact of SEK 2.4 billion (see Diagram 13). This was outweighed, however, by current interest income of SEK 5.6 billion. As a result, the overall return on the holding of interest-bearing assets amounted to SEK 3.2 billion during 2006.

The Riksbank also assumes a certain credit risk in order to obtain a higher return. The credit risk is the risk that the Riksbank's counterparties, or issuers of securities in which the Riksbank has invested, cannot fulfil their payment commitments. The Riksbank also has an opportunity to achieve a higher return because it is in a position to invest part of its assets in securities other than government bonds, thus exposing itself to credit risk. Hitherto, this possibility has primarily taken the form of the purchase of bonds issued by "US agencies", that is to say American mortgage institutions linked to the Federal Government. This holding constitutes 7.5 per cent of the assets in the foreign exchange reserve.

Gold holding

The Riksbank also owns 159 tons of gold, the value of which amounted to SEK 22.2 billion at 31 December. The gold price normally fluctuates in a manner which differs from the pattern for other assets, and as a result the gold holding helps to reduce the total variation in asset value. The Riksbank has, however, concluded that the gold holding is too large to make an optimal contribution to diversification of risks in the asset volume. As a result, in 2006, the Riksbank decided to divest 10 tons of gold on an ongoing basis during the year at a value corresponding to SEK 1.3 billion, within the framework of the central bank agreement on the amount of potential sales of gold. The income from this sale has

DIAGRAM 13
Changes in 10-year government bonds in different countries in 2006.



Source: Bloomberg.

been transferred to the foreign exchange reserve and has been invested in interest-bearing assets.

As a result of higher gold prices, the value of the Riksbank's gold holding increased by 6 per cent to SEK 22.2 billion, despite this divestment (see Diagram 14).

Monetary policy assets

The Riksbank's monetary policy portfolio comprises the assets used to control the interest rate in Sweden, and these consist of monetary policy repos, FX swaps (see below) and short-term investments in euro. The Riksbank meets the banks' borrowing requirements in the Riksbank by applying a "reverse repo" under which the banks receive kronor when the Riksbank buys securities from the banks and simultaneously agrees to sell them back, normally within a week. The banks pay repo interest for this service. The amounts which the banks need to borrow from

the Riksbank vary during the year, and hence the volume of the monetary policy repos also varies. The assets in SEK which the Riksbank does not require for repos are invested in "FX swaps".

FX swaps involve exchanging kronor for euro which, in their turn, are invested in euro at three-months' interest at the same time as an agreement is signed for a corresponding exchange in the future at a predetermined exchange rate. FX swaps are employed to give the Riksbank the possibility of a higher return than monetary policy repos, since the investment period is longer, thus providing an opportunity for a higher rate of interest. The average term is three months. At 31 December, the monetary policy portfolio amounted to almost SEK 12 billion. The portfolio normally increases at the turn of the year due to increased demand for banknotes and coins. During the year, the return amounted to SEK 168 million, of which SEK 75 million was accounted for by the repo portfolio and SEK 93 million by the swap portfolio.

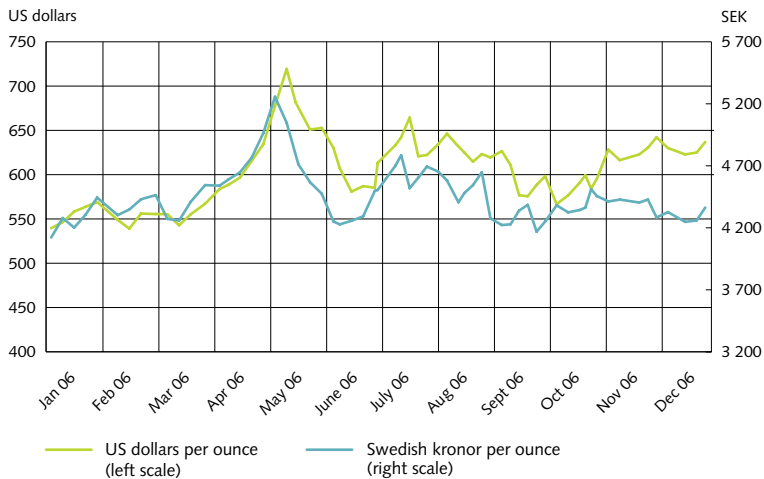
Other assets

In addition to the assets reported above, the Riksbank also has assets such as net claims on the International Monetary Fund (IMF) and shares in the Bank for International Settlements (BIS) and SWIFT. These holdings are exclusively linked to the Riksbank's involvement in the organisation concerned and are not managed actively. The total value of these assets was SEK 2.9 billion at 31 December, and the net return, excluding the impact of currency fluctuations, amounted to SEK 77 billion.

Risks at the strategic level

The Riksbank monitors the overall strategic risk in its financial portfolios on an ongoing basis. The principal risk indicator is Value at Risk (VaR), which shows, with a given probability (99 per cent), the greatest loss over a 10-day period as a result of price fluctuations in the various asset markets. The reallocation of currencies implemented during April reduced the currency risk in VaR terms by 15 per cent, from SEK 4.8 billion to SEK 4.2 billion (see Diagram 15). There were

DIAGRAM 14
Changes in the price of gold in 2006.



Source: Reuters.

also limited fluctuations in exchange rates during 2006, which contributed to the decline in VaR during the year. The interest rate risk did not change during the year, partly because the interest rate markets continued to be characterised by small variations in prices, and partly because no change was made in the target duration. Gold prices varied considerably during the year, however, which increased the price risk in the gold portfolio and hence the gold portfolio's VaR.

The Riksbank also employs stress tests on a regular basis to check the sensitivity of the gold portfolio and the foreign exchange reserve to significant market changes. These tests indicate a potential decline in value, assuming a given potential or historical scenario. Such declines may be greater than those indicated by VaR for the gold portfolio and the foreign exchange reserve if one of the stress scenarios becomes a reality (see Diagram 16). The currency risk is the main factor, but a substantial increase in interest rates (2 percentage points for all loan terms in all interest rate markets) would also result in an appreciable reduction in value.

The Riksbank's credit risk is the risk that the Riksbank's counterparties, or the issuer of a security in which the Riksbank has invested, cannot meet their payment commitments. A counterparty risk occurs as a result of short-term deposits with banks and the use of derivative instruments. The issuer risk occurs when the borrower cannot repay the loan and, in the Riksbank's case this primarily involves the foreign exchange reserve holding in US agencies.

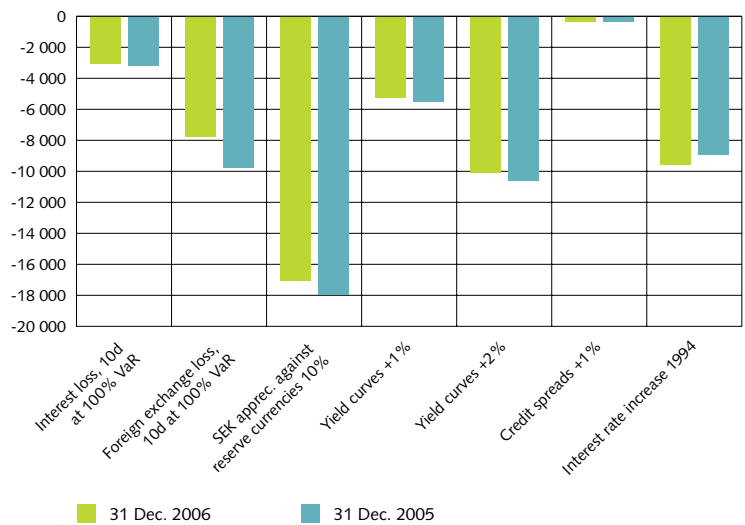
Operational risk occurs in all types of financial operations. For many years, the Riksbank has actively endeavoured to identify and monitor its operational risks in order to enable the Bank to avoid and limit financial losses due, for example, to bad management, activities which are not permitted, system faults or external occurrences. It is considered that there is a high degree of awareness of risk-related issues in the Bank's asset management. In the Riksbank's annual survey of the operational risks in asset management, it was considered that such risks were at a low level.

DIAGRAM 15
Value at Risk for asset management in 2006, excluding claims in SDR and monetary policy repos.



Source: The Riksbank.

DIAGRAM 16
Gold portfolio and foreign exchange reserve stress tests, SEK million.



Source: The Riksbank.

Asset management at the tactical level

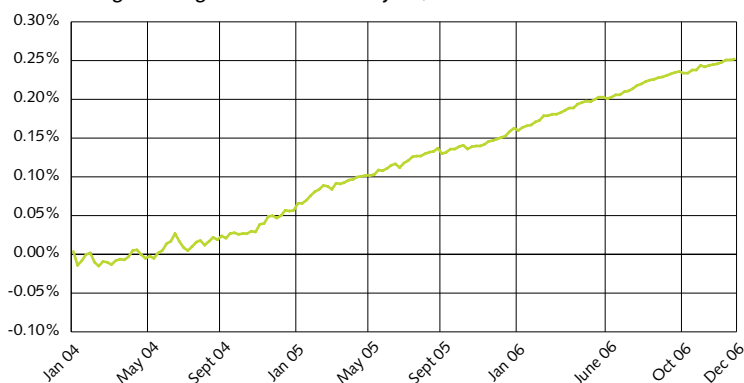
The strategic holding of government and US agency bonds is determined by strategic decisions taken by the Executive Board. The Board has delegated a tactical management mandate to the head of the Market Operations Department (MOP), with the aim of improving the return on the Riksbank's assets. The Riksbank's portfolio managers may adopt active positions vis-à-vis the benchmark index with the object of increasing the return. The available options are positions which modify either the interest rate risk or the credit risk in relation to the bench-

mark index. In addition, portfolio managers may also lend securities via repos, thus increasing the yield in comparison with the benchmark index. The Riksbank is also participating in various automatic securities lending programmes.

The return on the foreign exchange reserve for the year amounted to 2.0 per cent, which means an additional yield of 0.08 per cent in comparison with the index, or SEK 116 million (see Table 5). In calculating the return on tactical asset management in the same manner as for the benchmark index, the transaction costs for the foreign exchange reserve have been reversed and the income from securities lending has been excluded, in order to replicate the benchmark index.

DIAGRAM 17

Foreign exchange reserve's additional yield, 2004-2006.



Source: The Riksbank.

TABLE 5
Specification of additional yield in 2006.

Additional yield in comparison with index	0.08%
+ Transaction costs	0.02%
- Securities lending	0.03%
Tactical asset management	0.07%

In the past three years, the foreign exchange reserve has provided a total return of 0.25 per cent, representing SEK 351 million, and better than the relevant benchmark index (see Diagram 17). This corresponds to an average annual additional yield of 0.08 per cent.

Risks at the tactical level

As in the two preceding years, the foreign exchange reserve was managed in 2006 with small duration deviations from the benchmark index. Active risk-taking is measured in relative VaR, indicating with 99 per cent probability the largest loss compared with the index over a 10-day period. During the year, relative VaR averaged SEK 19 million.

Another way of assessing the level of active risk is to measure variations in the additional yield (i.e. the tracking error), calculated as the standard deviation in additional yield in the preceding year. (see Diagram 18). At year-end, the tracking error amounted to 0.01 per cent, which is less than at the beginning of the year.

In comparison with the low level of additional risk taken in tactical asset management during the year, the additional yield of 0.08 per cent, or SEK 116 million, may be regarded as satisfactory. This is confirmed by the information ratio for tactical management, which measures the portfolio's return in compared with the benchmark index and its active risk (see Diagram 19). A positive information ratio indicates that active risk-taking has been profitable. At year-end, the information ratio amounted to 3.9.

Asset management costs

In addition to transaction costs, which are included in asset management earnings, costs are also incurred for personnel, IT systems and other operational expenses. It is estimated that total costs are about SEK 50 million per year, or 0.03 per cent of the capital managed. This estimate is based on the cost of personnel who are directly involved in asset management.

It is important that the return on the Riksbank's assets is satisfactory in relation to the risk level adopted, but also that asset management is conducted in a cost-effective manner. In a study carried out by the McKinsey & Company consultancy firm, asset management costs are compared for a considerable number of capital managers, including the Riksbank. This study indicates that the Riksbank's costs for asset management have a satisfactory rating in comparison with other capital managers.

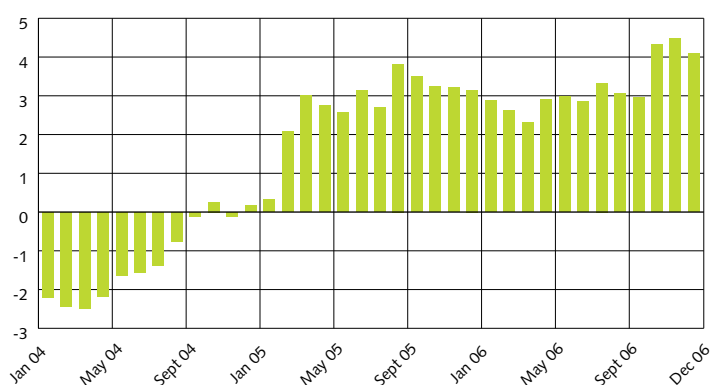
DIAGRAM 18
Foreign exchange reserve tracking error, 2004-2006.



Note: The reported tracking error is based on a rolling 12-month history.

Source: The Riksbank.

DIAGRAM 19
Foreign exchange reserve information ratio, 2004-2006.



Source: The Riksbank.

■ Statistics

Activities in 2006

During the year, publication of the Riksbank's financial market statistics, which may be accessed on the website, was considerably extended in terms of sector break-downs, time-series, etc. The money supply measures were also adjusted more closely in line with the European Central Bank standards. Press releases were issued in connection with the publication of statistics, and this resulted in more feedback from users and increased media attention.

During 2006, the process of preparing balance of payments statistics was dominated by the introduction of a new computer system, following the phasing out of the Riksbank's mainframe platform. The new balance of payments system is based on the existing computer system employed by Statistics Sweden for the production of financial market statistics. The new system came on stream for the production of statistics in November, as planned. Data produced by the new system is to be published for the first time in February 2007.

During 2006, an external study of where the production of balance of payments statistics should take place has been implemented. The study recommended that both production and responsibility for balance of payments statistics should be transferred to another institution. In January 2007, the Riksbank's Executive Board decided to outsource the production of balance of payments statistics as from the second half of 2007, and the Riksbank is also to investigate on what terms responsibility for balance of payments

statistics can be transferred to an institution determined by the Government and, in this case, how this is to be achieved. This presupposes that the Riksbank can maintain its statistical expertise and fulfil its international obligations.

The decision concerning balance of payments statistics is a further stage in a rationalisation process in the statistical area which has previously primarily involved the outsourcing of financial market statistics to Statistics Sweden, which was implemented in 2003.

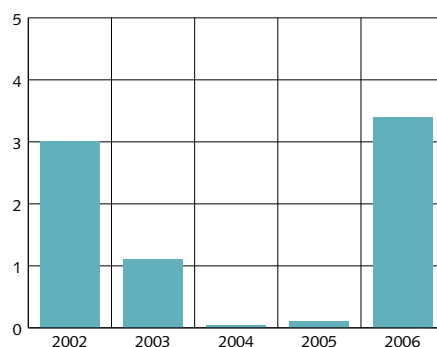
Follow-up

The introduction of a search function for interest rate and exchange rate statistics on the Riksbank's official website in October 2005 has been well received. Using this facility, members of the public can look for listings for approximately 60 Swedish and foreign interest rate series and about 50 exchange rate series. The user can customise his or her requirements by stipulating a number of selection criteria in a search engine. During the period from October 2005 to October 2006, there was an average of 2,400 searches per day.

One indicator of the quality of the balance of payments statistics is the "net errors and omissions" item, which indicates inaccuracies and other inadequacies in the balance of payments statistics. There is an international rule of thumb that if net errors and omissions represent more than 5 percent of the total current account balance (exports plus imports) over a 12-month period, this indicates quality problems in the statistics that must be rectified. The efforts initiated in 2005 to improve the quality of these statistics have achieved good results for previous years, for which errors and omissions have now been reduced. A increase in the errors and omissions item for 2006 has been noted, but this is well below the 5 per cent threshold.

Publication of balance of payments and financial market statistics complies with a predetermined timetable. During the year, statistics were published on some 30 occasions, all of them on schedule.

DIAGRAM 20
Errors and omissions as a percentage of the total current account balance, 2002-2006.



Note: Information for 2006 is for the period January-September.

Source: The Riksbank.

■ International cooperation

Activities in 2006

The Riksbank participates in a broad range of international activities, both within the framework of various international organisations and in the form of bilateral contacts with representatives of central banks of other countries. The strategic aims of this participation are international monetary and financial stability, good influence in selected working groups, and a high degree of legitimacy for the Riksbank in key international issues.

Opportunities to influence international decisions and discussions are particularly important, since they have an impact on the Riksbank's own activities and on the environment for the financial sector in Sweden. Since many years, the Riksbank is actively working to improve international cooperation concerning the promotion of financial stability (see pages 30-33). The Riksbank has given special priority to efforts to reinforce the ability to counter cross-border financial crises by improving regulatory structures and by further developing the forms for managing financial crises within the *European Union (EU)*.

As already mentioned (see page 32), an exercise was carried out in the spring of 2006 within the EU, with the participation of the ministries, central banks and supervisory authorities concerned. The aim was to test the effectiveness of the cooperation in the event of financial crises which have repercussions on several member states. This exercise indicated that further steps need to be taken in order to prevent and manage financial crises in a more effective manner, including inter alia the establishment of satisfactory contact channels between public authorities. The Riksbank supported continued endeavours within the EU in this area – for example by chairing a task force for crisis management in the *European System of Central Banks (ESCB)*. In the framework of the *Group of Ten (G10)*, the Riksbank coordinated a study to determine which financial functions are most critical in financial institutions threatened by closure as a result of solvency crises.

The Bank for International Settlements (BIS) has for many years provided another arena for the Riksbank's participation in international cooperation on financial stability issues. This applies in particular to the Governor's membership of the BIS Board of Directors and otherwise the Bank's participation in the G10-based committees which are preparing recommendations in this area – often leading to the establishment of global standards for sound financial practices. As mentioned previously (see page 33), the Riksbank last year chaired a working group assigned to update the BIS core principles for effective bank supervision. The Riksbank also participated actively in BIS endeavours to facilitate cooperation between supervisory authorities in home and host countries as regards the implementation of the new capital adequacy rules for banks. In the framework of the *International Monetary Fund (IMF)*, Riksbank staff members participated in assessments of how the regulatory framework for the financial sector is being implemented in various countries.

In view of its global membership, the IMF has the greatest scope for the work to promote monetary and financial stability. Sweden is of the view that the IMF should be a natural forum for discussions on how to promote the external stability of countries and regions. Thus, Sweden supports a plan which was launched to adapt the IMF's working methods and the influence of various countries in the IMF to the changes which have taken place in the world economy over the years. In line with this strategy, it was decided at the IMF's annual meeting in Singapore in the autumn of 2006 to increase the quotas of those countries that were considered to be particularly underrepresented – China, Korea, Mexico and Turkey. In addition, the IMF is increasingly focusing its surveillance on regional integration and the transnational impact of national economic developments. The IMF also decided to review the forms for its lending operations and the modalities for the Fund's financing. Sweden supports these changes.

Several international organisations regularly examine also the Swedish economy, with an opportunity for the Riksbank to present its views on the conclusions drawn. Last year, the IMF carried out its regular consultation, in accordance with Article IV of the Fund's articles of agreement. The OECD also visited Sweden and the Riksbank in connection with its economic survey. Furthermore, the ECB and the European Commission published convergence reports which include Sweden as a member state with a derogation to adopt the euro. In this context, the Riksbank was involved in discussions of issues of principle regarding the implementation of the convergence criteria and the conclusions drawn with regard to Sweden.

In order to streamline the arrangements for international meetings, the G10 finance ministers and central bank governors decided in September 2006 to discontinue their group of deputies. Instead, the meetings of ministers and governors will in the future be prepared by the Financial Stability Forum (FSF), in which the Riksbank's participation will take the form of close cooperation with the Swiss central bank, which is a member of FSF.

Participation in international cooperation also enables the Riksbank to obtain better information about the world economy and provides opportunities to exchange expert knowledge and experience with other central banks and international organisations in order to develop the Bank's own analyses and models.

In 2006, the Riksbank coordinated a study on housing finance in a few countries. This study, which was initiated in the G10 framework, gave the Riksbank an opportunity to intensify discussion of the driving forces and factors underlying the development of house prices and household debt at both the domestic and international levels, making valuable contributions also to improving the Bank's own analysis in this area. The Riksbank was furthermore invited to present its analysis in this field at the *European Central Bank (ECB)*.

During the past year, the Riksbank was involved in extensive cooperation with other central banks and with foreign researchers outside the central banking sphere, with the aim of discussing the analytical basis for monetary policy

forecasts and decisions. These discussions covered both the various formal models used in the analyses and the way in which the processes which result in interest rate decisions are being organised in different central banks. Key partners in these discussions included representatives of the US Federal Reserve and the ECB, but also national central banks within the EU and in Asia.

In 2006, the Riksbank continued to allocate staff resources to technical assistance for central banks in a few developing countries, chiefly Sri Lanka, Vietnam and Uganda, with the aim of sharing its know-how and experience. This mostly involved cooperation with Sida (the Swedish International Development Cooperation Agency), but also participation in IMF missions. In both cases, the Riksbank's participation was financed by external sources.

Follow-up

A characteristic feature of international cooperation tends to be that it is difficult to measure the impact of specific initiatives. Nevertheless, several issues to which the Riksbank gives priority played a central role in international cooperation also in 2006, which supported the Bank's strategic aims of its international activities. This is particularly evident in efforts within the EU to promote financial stability in various ways, in particular in the establishment of more effective forms for safeguarding stability in cross-border financial activities. Representatives of the Riksbank actively pursued these issues in their participation in the international committees concerned, and in various public speeches. The Riksbank's devotion and experience in this area also meant that staff members were entrusted with the task of chairing or were otherwise actively participating in international working groups with a mandate to prepare proposals for action, and were also asked to coordinate international studies. The positions of trust which the Riksbank held in international cooperation concerning the high-priority financial stability area provide visible confirmation that the Bank, in line with its strategic aims, was able to contribute to financial stability, had a good influence in selected working groups, and achieved a high degree of legitimacy in this field at the international level during the year.

■ Organisation

The Sveriges Riksbank Act stipulates the Riksbank's objectives and assignments. Under the Act, the General Council adopts the Bank's Rules of Procedure which specify the Riksbank's overall organisational framework. The Executive Board then determines the Bank's organisational structure in more detail in the form of Internal Instructions for the Riksbank. The appendix to these Instructions indicates, among other things, the main assignments of the various departments.

Focus

In the autumn of 2006, the Executive Board approved a new vision for the Riksbank's activities, based on the Bank's objectives and assignments. The aim is to describe the overall objectives and focus for the Riksbank's activities in the next 10 years. This vision is to be the starting point for the Bank's governance.

The Riksbank's vision

Our vision is to be among the best as regards quality and efficiency, in order to maintain a high level of confidence. We must regularly review the question of what is the optimum quality and resource input for society as a whole. In order to be in a position to assess our activities, we must compare ourselves to a greater extent both with other central banks and also with other public authorities, academic institutions and private companies. By striving to be among the best, we shall establish the preconditions for maintaining a high level of confidence and for being treated with respect at the national and international level.

Our way of working

The best way of ensuring that the Riksbank can adapt its activities in line with future changes in the world economy and in fundamental approaches is that we establish a culture and a way of working in which we follow up what is happening in the outside world and in which we can continuously question former self-evident truths. This is the great challenge in the next 10 years. The Riksbank's way of working must be characterised by:

■ *An organisation prepared for change*

We must be an organisation prepared for change. Our mission is already established, but the best way of implementing it may vary, depending on changes in our external environment. We can predict some changes, but not others. We must prepare for the changes which we are aware of and which we can predict. But, in addition, our way of working must enable us to adapt to changes which we cannot currently foresee. The Riksbank must be an organisation which utilises the experience of others, and shares its own experience.

■ *Openness and active communication*

Openness and active communications are key prerequisites in ensuring that our efforts are to have the impact we are striving for. As a result, the Riksbank's communications must make it possible for a wide circle of external parties to benefit from information about the Bank's facts and figures. The Bank's independent status makes considerable demands on transparency that permits scrutiny and evaluation. Openness is an essential factor in establishing confidence and legitimacy in activities.

■ *Doing what we are best suited to do*

We must perform the tasks for which we are most suited. We assume responsibility for all our assignments, but we must find the most effective way of accomplishing them. It is by no means certain that the most effective solution is that we ourselves should carry out all such assignments. We should undertake assignments that are specific for the Riksbank, which

have tangible synergies with our other activities, which we are in a better position than others to perform or which may be detrimental to confidence in us if others carry out such assignments.

■ *The right expertise*

We must have professional staff with appropriate expertise. A high degree of specialist competence is required in a number of areas. In addition, we must have many staff members with a broad range of expertise, who are aware of the overall picture and the links involved. We must endeavour to ensure that employees can develop their skills in their work on a continuous basis, thus helping to make the Riksbank an attractive workplace.

■ *Good working climate*

The Riksbank is to have a working climate which provides motivation and a sense of commitment. The Riksbank is to be a workplace which is a source of pride, in which all employees have and assume personal responsibility and are clearly aware of their contribution to the Riksbank's overall objectives. Good results are achieved by combining the efforts of all staff members, and it must be possible to combine work and private life in a satisfactory manner. Discrimination of the Riksbank's employees is not permitted. All employees must be assured that they are assessed and evaluated on an objective basis and not as a result of the group to which they belong. The Riksbank's managers must support a common holistic view, and pursue an active management approach, in which communication is a key feature.

■ *Self-critical evaluation*

We must evaluate our activities in a critical spirit. The Riksbank's vision is an expression of a high level of ambition for the Bank's activities. In order to ensure that we living up to these ambitions, we must monitor our activities in a manner that enables us to evaluate the fulfilment of our targets for our various assignments. We must undertake this evalua-

tion openly and in a self-critical spirit, based on three perspectives: quality, efficiency and confidence.

Governance of activities and resources

The planning and follow-up of activities are based on the Riksbank's vision, the Riksbank's strategic plan and the Executive Board's special planning requirements.

The strategic plan is sub-divided into seven target areas and encompasses goals for the various facets of activities based on the quality, efficiency and confidence perspectives. The strategic plan defines the way in which strategic objectives are to be evaluated and provides a basis for follow-up of the Riksbank's activities.

The Riksbank's guidelines for external communications and its plans for equality, work environment and diversity are other important aspects of the planning and follow-up of the activities. In addition, a cohesive risk assessment of the Riksbank's activities forms an intrinsic part of the corporate governance.

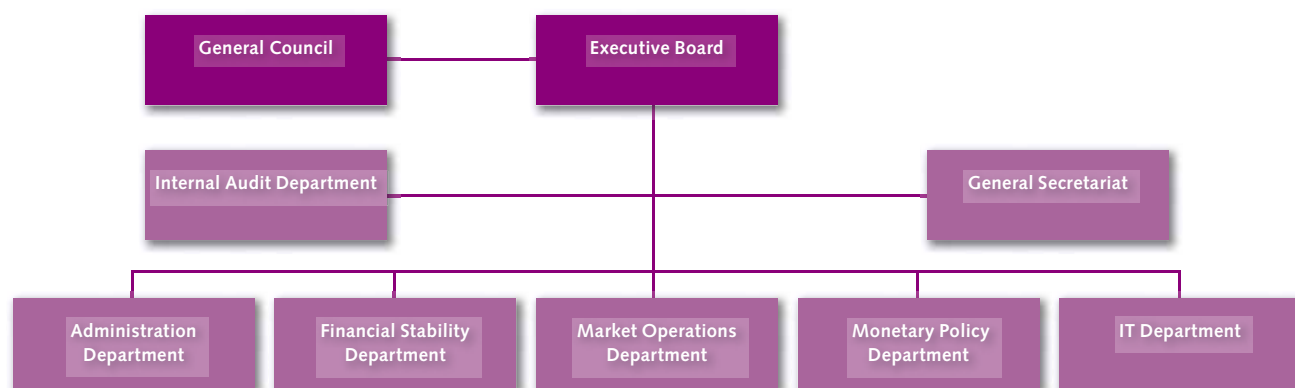
The Riksbank is a decentralised organisation in which heads of departments are responsible to the Executive Board for governance and control of their activities, their efficiency, and for risk management.

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

In order to maintain a high degree of confidence in the Riksbank's work, it is essential that the Bank's employees and members of the Executive Board fulfil their responsibilities in accordance with high ethical standards. The Riksbank has established a structure to promote high ethical standards on the part of its employees which includes ethical guidelines that indicate, for example, that employees can always refer to the Legal Secretariat if they have questions about ethical issues. Employees also receive training on the ethical guidelines in an ongoing basis.

FIGURE 3

The Riksbank's organisational structure.



Organisation and forms for management

The Executive Board leads the Riksbank's activities, and the Governor of the Riksbank is Chairman of the Executive Board. The Governor shall also present proposals regarding appointments to posts approved by the Executive Board and exercise management responsibilities vis-à-vis the heads of department. In addition, the Governor shall take decisions regarding urgent monetary or foreign exchange policy situations, if there is insufficient time for a decision by the Executive Board.

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

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

The Riksbank has seven departments. Three departments are directly focused on the Bank's

main tasks: the Monetary Policy Department, the Financial Stability Department and the Market Operations Department.

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

The Riksbank's departments

The Monetary Policy Department

This department is responsible for analyses of monetary policy that provide a basis for decisions to meet the price stability target. Responsibilities also include the provision of documentation for monetary policy communications. The department monitors and analyses economic and price trends, and is responsible for financial market and balance of payments statistics. It also includes the Riksbank's Research Division.

Head of Department: Anders Vredin

Number of employees: 75

The Financial Stability Department

The Financial Stability Department is responsible for analysing the stability and efficiency of the financial system, thus providing a basis for decisions to fulfil the task to promote a safe and efficient payment system. As a result, the Department analyses ongoing risks and threats to the stability of the Swedish financial system, in which

analysis of the major banks is of particular importance. This department is also responsible for controlling the risks that occur in the Riksbank's financial operations.

Head of Department: Martin Andersson (as from 17 January 2007 Mattias Persson)

Number of employees: 32

The Market Operations Department

The Market Operations Department is responsible for the implementation of monetary and foreign exchange measures with the aim of influencing interest and/or exchange rates in accordance with monetary policy decisions. In addition, the department also manages the Riksbank's foreign currency assets and compiles statistics on interest rates and foreign exchange markets. This department is also responsible for management of the risks that occur in market operations and asset management. The Department's area of responsibility also includes operation of the Riksbank's system for large-value payments between banks and the supply of banknotes and coins at the national level.

Acting Head of Department: Eva Julin

Number of employees: 63

The Administration Department

The Administration Department is responsible for the development of personnel and professional competence, office and property services, transportation, security, budget documentation, accounting, salary and accounting systems, and financial administration.

Head of Department: Agneta Rönström

Number of employees: 90

The General Secretariat

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

Head of Department: Kai Barvèll

Number of employees: 49 (including the Executive Board)

The IT Department

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

Acting Head of Department: Olof Fredriksson

Number of employees: 63

The Internal Audit Department

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

Head of Department: Ulrika Bergeliv

Number of employees: 5

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

■ Staff

The Riksbank tries to ensure that all employees feel that they are participating in the Bank's work and that they understand the importance of the contribution that each individual employee makes to the organisation's performance. It is the manager's task to formulate individual goals, provide guidance and empowerments and, in particular to follow up the work process.

All Riksbank employees are to be assured that they are assessed on the basis of their own performance and personality, and are not judged by their membership of a particular group.

The Riksbank considers that groups that consist of human beings with different backgrounds and perspectives are more effective and dynamic than more homogenous groups. As a result, the Riksbank is endeavouring to promote greater diversity in several different areas – for example diversity in terms of gender, age, previous job experience, and ethnic and cultural background.

TABLE 6
Average number of employees, 2004-2006.

	2006	2005	2004
Total	404	429	420
Of whom women	179	190	189
Of whom men	225	239	231

Development of professional competence

Competence development and career opportunities are essential features of a knowledge-intensive organisation such as the Riksbank, with a high proportion of professional and highly-committed employees. The Riksbank provides both external and internal opportunities for career development. One of the most effective forms of competence development is internal mobility, providing opportunities to learn from colleagues. During 2006, approximately 40 per cent of all vacancies were filled internally. Overall personnel turnover was about 6 per cent.

The competence and leadership qualities of managers are a decisive factor in the degree of



Katarina Oebius, Pia Nyström, Karl-Gunnar Svensson and Björn Wendel.

success with which the Riksbank performs its assignments and achieves its objectives. Leadership is also an important element in employee motivation, performance and job satisfaction. As a result, it is essential that the Riksbank's managers have opportunities for the development of their leadership qualities on a continuous basis.

Professional competence development for managers takes the form of a leadership development programme. The purpose of this initiative is to:

- ensure consistent leadership and management,
- establish the fundamental values which the Riksbank has decided are to apply for leadership,
- give managers training in communications, and
- encourage an internal network for managers.

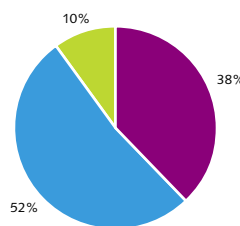


DIAGRAM 21

Educational level.

- Compulsory school or upper-secondary education
- University degree
- PhD or licentiate qualification

Source: The Riksbank.

This training programme, which is mandatory, is a combination of group exercises and individual coaching.

Equality and diversity

Achieving a satisfactory group mix is a key aspect of a manager's responsibilities. As a result, it is important to promote greater diversity in a wider range of areas, for example gender, age, previous job experience and ethnic or cultural background. All employees must have equal rights and opportunities as regards terms of employment and career opportunities.

During the year, a fully anonymous survey of the personnel breakdown was conducted with assistance from Statistics Sweden (SCB), in order to get a picture of what ethnic diversity looks like at the Riksbank.

The survey indicates that 14 per cent of the Riksbank's entire staff have a non-Swedish background, which SCB defines as born in another country or with both parents born in another country. In the case of women, 16 per cent have a foreign background, and the figure for men is 12 per cent. The results also indicate that the proportion of employees with a foreign background is highest in the Research Division, and that only two departments have a proportion of less than 13 per cent, which is the average for central government employees.

Working environment

The Riksbank endeavours to provide a stimulating workplace, in which employees can combine private life and a high level of professional ambition. The Riksbank also offers opportunities for flexible working hours and working from home to enable parents with small children to fulfil their responsibilities, both as parents and in their work.

Personal career development discussions and employee surveys help to form a picture of the way staff members experience their work situation. For some time, debriefing interviews have also been carried out in order to further improve this information.

The Riksbank has a preventive health care programme and offers its employees a well-equipped gym and various forms of physical training, relaxation, discount cards for other training facilities and nutrition advice.

Employee survey

During the autumn of 2006, Synovate Temo carried out a survey among the Riksbank's employees. The results of the survey will be used to provide a basis for developing the Riksbank as a workplace. The survey took the form of a web questionnaire, and the response rate was 92 per cent.

The results indicated that the Riksbank's employee rating is 55 on a 100 degree scale, which is slightly lower than Synovate Termo's average of 59. The employee rating is an average of the proportion of satisfied employees in the key question areas, in which all questions have the same weighting. The key areas were work organisation, leadership, organisational climate, personal work situation, stress, customer orientation and action capability.

The survey revealed that the majority of the Riksbank's employees (67 per cent) enjoy their jobs and their work situation. 73 per cent had confidence in the Governor of the Riksbank, and 69 per cent had confidence in their immediate superior. At the same time, the survey indicates that work routines and the organisational climate need to be improved. There are also considerable differences within the Bank – employees at most units have a very positive view of the Riksbank, but employees in units that are undergoing major change processes, including cutbacks in resources, tend to have a more negative impression.

TABLE 7
Absence due to sickness in 2006 (2005), per cent.

AGE	TOTAL	WOMEN	MEN
≤ 29	1.0 (0.6)	1.5	0.4
30-49	1.9 (2.0)	3.0	1.1
≥ 50	8.7 (9.1)	7.4	9.7
All	4.5 (4.7)	4.6	4.4

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

■ Governance



Stefan Ingves



Eva Srejber



Lars Nyberg



Kristina Persson

The Riksbank's Executive Board

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

Stefan Ingves,

term of office six years, from 1 January 2006

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

Eva Srejber,

term of office six years, from 1 January 2003

Eva Srejber is First Vice Chairman and First Deputy Governor of the Riksbank. Ms Srejber is



Irma Rosenberg



Svante Öberg

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

Lars Nyberg,

term of office six years, from 1 January 2006

Lars Nyberg is a Deputy Governor of the Riksbank and is responsible for presenting proposals for Financial Stability Reports and on measures to ensure the stability and efficiency of the payment system. Mr Nyberg has also been appointed by the Government to the Board of Finansinspektionen (the Swedish financial supervisory authority) and is the Riksbank's representative in the G10's Committee on the Global Financial System and of the ESCB's Banking Supervision Committee. Mr Nyberg is an associate professor in economics and has previously been Deputy CEO at Svenska Handelsbanken and Swedbank and CEO of Länsförsäkringsbolagens förening.

Kristina Persson,

term of office six years, from 1 May 2001

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

Irma Rosenberg,

term of office six years, from 1 January 2003

Irma Rosenberg is a Deputy Governor and is responsible for presenting proposals for Inflation Reports (called Monetary Policy Reports with effect from 15 February 2007) and proposals for decisions on monetary and foreign exchange policy measures. Ms Rosenberg is also responsible for questions relating to the Riksbank's subsidiaries. Ms Rosenberg participates in BIS meetings, together with the Governor of the Riksbank. She has a PhD in economics and has

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

Svante Öberg,

term of office six years, from 1 January 2006

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

The Executive Board's assignments

The Executive Board is responsible for the entire activities of the Riksbank, that is to say monetary policy, questions concerning financial stability and efficiency, market operations and the payment system. The Executive Board is also responsible for the Riksbank's administration and budget.

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

The Executive Board in 2006

During 2006, the Board held 28 meetings, seven of which were monetary policy meetings. Members of the Executive Board have held some 100 public speeches, of which slightly less than half were published in full. These speeches dealt with matters such as current monetary policy and the

economic situation, financial stability, the Riksbank's financial asset management and general political and international issues.

Twice a year, the Executive Board presents a written report on monetary policy to the Riksdag Committee on Finance. The current Inflation Report has been used as the report to the Riksdag and was supplemented by two public hearings with the Governor by the Committee on Finance. In addition, in the autumn of 2006 the Governor participated in the Committee's public hearing regarding the evaluation of the Riksbank's monetary policy in the period 1995-2005. Other assignments undertaken by members of the Executive Board In accordance with the Sveriges Riksbank Act, members of the Executive Board are obliged to notify the General Council, subject to approval, if they hold certain posts or assignments in addition to their employments as members of the Executive Board of the Riksbank. The following is a summary of other assignments undertaken by members of the Executive Board at year-end 2006. They have been approved by the General Council and are reviewed on a bi-annual basis.

Kristina Persson

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

Stefan Ingves

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

Eva Srejber

- Member of the Blekinge Institute of Technology Advisory Board for Business Administration and Economics.
- Participant in the reference group for the Stockholm University 4-year mathematics programme.

Lars Nyberg

- Member of the Board of Finansinspektionen.
- Participant in the Emergency Delegation for Economic Policy.
- Member of the ESMID Africa Advisory Board.



Johan Gernandt



Leif Pagrotsky



Sinikka Bohlin



Peter Egardt



Susanne Eberstein

The General Council

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

Prior to 17 October 2006, the members of the General Council were Jan Bergvist (Chairman, died on 1 September), Johan Gernandt (Vice Chairman), Sinikka Bohlin, Susanne Eberstein, Peter Egardt, Kenneth Kvist, Lennart Nilsson, Kjell Nordström, Mats Odell, Karin Pilsäter and Bengt Westerberg.

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

On 17 October, the Riksdag appointed a new General Council which, following formal inauguration, has the following members: Johan Gernandt (Chairman), Leif Pagrotsky (Vice Chairman), Sinikka Bohlin, Peter Egardt, Susanne Eberstein, Bo Bernhardsson, Elizabeth Nyström, Anders Flanking, Karin Pilsäter, Kjell Nordström, and Ebba Lindsö. The alternate members are Barbro Holmberg, Odd Eiken (until 14 December)/Anne-Katrine Dunker (from 21 December), Carin Lundberg, Stefan

Tolstoy, Fredrik Olovsson, Lena Sommestad, Catharina Elmsäter-Svärd, Håkan Larsson, Johan Pehrson, Tommy Waidelich and Per Landgren.

The General Council's assignments

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

The General Council is responsible for regular monitoring of the Riksbank's activities and the way in which members of the Executive Board conduct activities. One way for the General Council to exercise control is for the Chairman and the Vice Chairman to utilise their right to attend and address meetings of the Executive Board, although they are not permitted to make proposals or to vote. The General Council has an Audit Unit that, among other things, examines the way in which members of the Executive Board perform their duties and the Riksbank's annual accounts process, with a focus on calculation of the Riksbank's profits. The Audit Unit's assignments are performed by an external authorised public accountant.

The General Council may submit consultation opinions within its area of competence and, in consultation with the Executive Board, may present proposals to the Riksdag and the Govern-



Bo Bernhardsson



Elizabeth Nyström



Anders Flanking



Karin Pilsäter



Kjell Nordström

ment regarding statutory amendments or other measures within its area of responsibility.

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

The General Council in 2006

The General Council met on 11 occasions during 2006. The Chairman and the Vice Chairman monitor the work of the Executive Board, for example through participation in the Executive Board's meetings. The Council received regular reports on activities from the Executive Board. These reports included presentations of current monetary policy and the task of monitoring the financial system, and also the situation regarding the phasing out of the remaining group of subsidiaries. The General Council has also received a report concerning the Executive Board's follow-up of changes in the governance and management structure implemented since 2004.

During the autumn, the General Council received information about the evaluation of the Riksbank's monetary policy in the period 1995-2005 carried out by Professor Mishkin and Professor Giavazzi on an assignment from the Riksdag Committee on Finance. The General Council also received information from the Riksbank's Capital Structure and Profit Allocation Committee, appointed by the Government and headed by Ingrid Bonde.

During the year, the General Council approved the design of the commemorative coin to celebrate the 150th anniversary of the Swedish railway system.

At its meeting in September, the General Council decided to nominate Hans-Ola Meyer as a new Board member on the Bank of Sweden Tercentenary Foundation.

The General Council's Audit Unit mainly focused on ensuring that the Riksbank's Rules of Procedure and Internal Instructions do not contradict each other and that they were observed, the manner in which members of the Executive Board discharged their duties, and the Riksbank's proposals for allocation of profits. The General Council's Audit Unit also examined the instructions, documentation and controls employed by the Riksbank to ensure the reliability and correctness of the Riksbank's annual accounts. These audits did not give rise to any criticism, but the auditors indicated a number of items which resulted in appropriate action. The General Council also received information regarding the Swedish National Audit Office's examination of the Riksbank's activities.



Ebba Lindsö

■ Accounting principles

The balance sheet and the profit and loss account for the Riksbank have been prepared in accordance with the Sveriges Riksbank Act and in accordance with the Rules for Bookkeeping and Annual Accounts at Sveriges Riksbank adopted by the Executive Board. The bookkeeping rules are taken from the Bookkeeping Ordinance (2000:606) and the rules for annual accounts from the Guideline of the European Central Bank on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2002/10).

Changes in accounting principles

The accounting principles were not changed in 2006.

Basic accounting principles

The following fundamental accounting principles have been applied:

- Accounting shall reflect the financial reality and be characterised by transparency.
- The valuation of assets and liabilities, as well as the recognition of income, shall be carried out prudently.
- Assets and liabilities shall be adjusted to take into account events that occur between the end of the financial year and the date the annual accounts are adopted by the Executive Board, on condition that these events have affected the value of the assets or liabilities on the closing date.
- Assessment of assets and liabilities must be made on the assumption of a going concern.
- Income and expenditure will be reported as income and expenses in the accounting period they were earned or arose, regardless of when the payment was made.
- The recognition of criteria for balance sheet items and for the profit and loss statement must be applied consistently.

Recognition of assets and liabilities

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

Trade date accounting

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

Balance sheet valuation rules

Gold and securities are valued at the exchange rates and prices applying on the closing day.

Receivables, balances and liabilities are valued at the nominal amount. Amounts in foreign currency are translated at the closing day market rate with the exception of receivables and payables reported under the items "other assets" and "other liabilities". These are recorded at the exchange rate on the acquisition date.

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

Property, plant and equipment and intangible assets are recorded at cost of acquisition and amortised/depreciated according to plan. Write-downs are made when the impairment loss is judged to be permanent. Revaluation is only allowed if the asset has a reliable and permanent value that exceeds the carrying amount. Buildings are depreciated over a period of 50 years, other fixed assets over 5–10 years. Machinery and equipment, including computers, is written off over 3–7 years. Direct staff costs attributable to IT investments developed in-house are included in the asset's cost of acquisitions.

Repurchase agreements

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

Assets pledged by the Riksbank as collateral for repos are still reported in the balance sheet and are recorded in accordance with the applicable rules for the Riksbank's other holdings of securities and gold. An amount equivalent to the received purchase sum is reported as a liability, while the transferred assets are reported as memorandum items.

Assets received by the Riksbank under reverse repurchase agreements are not reported in the balance sheet because they constitute loan collateral. An amount equivalent to the paid purchase sum is reported as a receivable. The difference between the two payments in a repurchase agreement (spot and forward) is treated on an accrual basis over the term of the agreement.

Transactions carried out within the framework of agreements on automatic repurchase agreements are only reported in the balance sheet if collateral is pledged in the form of cash for the entire duration of the transaction.

Banknotes and coins

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

Recognition of income

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

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

Unrealised losses are transferred to the profit and loss account if they exceed unrealised gains that may have been previously recorded in the corresponding revaluation account. Unrealised losses that are transferred to the profit and loss account may not be reversed during later years to offset new unrealised gains. Unrealised losses in a particular security, a particular currency or gold are not netted against unrealised gains in other securities, currencies or gold.

Premiums and discounts on securities purchased are calculated and reported as part of interest income and are written off during the security's remaining time to maturity.

Cost of transactions

With regard to gold, instruments in foreign currencies and securities, the average method is used daily to establish the cost of acquisition of items sold when calculating effects of exchange rates and prices. When net acquisitions of currency and gold are made, the average acquisition cost for the day's acquisition with regard to each individual currency and gold is added to the previous day's holdings to obtain a new weighted average of the exchange rate and the gold price respectively. To calculate net sale, the realised outcome is calculated on the basis of the average cost of acquisition, on the previous day for the holding in question.

Derivative instruments

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

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

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

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

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

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

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

Balance sheet

SEK MILLION

ASSETS	NOTE	31.12.2006	31.12.2005
Gold	1	22 222	22 235
Claims on residents outside Sweden denominated in foreign currency			
Claims on IMF	2	4 892	5 729
Balances with banks and security investments	3	162 292	167 429
		167 184	173 158
Lending to monetary policy counterparties denominated in Swedish kronor			
Main refinancing operations	4	6 700	9 600
Fine-tuning operations	5	267	–
Marginal lending facility	6	121	1
		7 088	9 601
Other assets			
Tangible and intangible fixed assets	7	483	512
Financial assets	8	594	594
Derivative instruments	9	379	19
Prepaid expenses and accrued income	10	2 429	2 183
Other assets	11	306	305
		4 191	3 613
Total assets		200 685	208 607
LIABILITIES AND CAPITAL	NOTE	31.12.2006	31.12.2005
Banknotes and coins in circulation			
Banknotes	12	106 862	105 516
Coins	13	5 518	5 559
		112 380	111 075
Liabilities to monetary policy counterparties in Swedish kronor			
Deposit facility	14	121	23
Fine-tuning transactions	15	–	227
		121	250
Liabilities to residents outside Sweden denominated in Swedish kronor	16	66	94
Liabilities to residents outside Sweden denominated in foreign currency	17	13 906	10 159
Counterpart of Special Drawing Rights allocated by the IMF	18	2 540	2 797
Other liabilities			
Derivative instruments	19	6	1
Accrued expenses and prepaid income	20	188	111
Other liabilities	21	68	82
		262	194
Provisions	22	276	289
Revaluation accounts	23	8 488	23 680
Equity capital			
Capital	24	1 000	1 000
Reserves	25	53 769	55 813
		54 769	56 813
Result for the year		7 877	3 256
Total liabilities and equity		200 685	208 607

Memorandum items, see Note 38.

■ Profit and Loss Account SEK MILLION

	NOTE	2006	2005
Interest income	26	6 386	5 421
Interest expenses	27	-826	-320
Net result of financial operations	28	2 758	-1 116
Fees and commission income	29	37	45
Fees and commission expenses	30	-9	-7
Income from equity shares	31	45	43
Other income	32	190	10
Total net income		8 581	4 076
Staff costs	33	-316	-308
Administrative expenses	34	-223	-249
Depreciation of tangible and intangible fixed assets	35	-100	-84
Banknote and coin expenses	36	-65	-179
Other expenses	37	-	-
Total expenses		-704	-820
Result for the year		7 877	3 256

Notes

SEK MILLION FIGURES IN PARENTHESES REFER TO 2005.

Note 1 Gold

	31.12.2006	31.12.2005
Quantity		
Troy ounces (million)	5.09	5.41
Price		
US-dollar/uns	636.80	517.16
SEK/USD	6.85	7.94
Book value	22 222	22 235

As of 31 December 2006, the Riksbank holds 5.09 million ounces (troy/oz) of gold, which is equivalent to 158.5 tonnes. During 2006, the Riksbank has sold 0.32 million ounces of gold. The Riksbank has also entered into gold option agreements which mature in 2007. See Notes 19 and 38.

Note 2 Receivables from the IMF

	31.12.2006	31.12.2005
Special Drawing Rights	2 645	1 401
Reserve Position in the IMF	2 056	4 117
Other receivables	191	211
Total	4 892	5 729

The Riksbank's holds Special Drawing Rights of SDR 257 million (123). An amount corresponding to the SDRs originally allocated by the IMF is reported as a liability. See Note 18.

The Riksbank's reserve position in the IMF is reported on a net basis as its total capital contribution (quota) to the IMF (SEK 24,681 million 2 395.5 million SDR) and the IMF's account for Swedish kronor (SEK -22 625 million).

The item Other receivables refers to an interest-free deposit with the IMF as manager of contributions to IMF's share of the debt relief initiative HIPC (Heavily Indebted Poor Countries) and to the Fund's concessional lending. The deposit of a total of SDR 18.6 million is to be repaid by 1 January 2019.

Note 3 Balances with banks and security investments

	31.12.2006	31.12.2005
Balances with banks	22 332	21 839
Security investments	139 960	145 590
Total	162 292	167 429

This item consists mainly of foreign government securities and state-guaranteed securities as well as balances with foreign banks, such as time-limited loans and balances in bank accounts. In previous years, net Target/E-RIX balances have been reported under this item. These accounts were terminated at the end of 2006 in conjunction with the closing down of E-RIX.

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

	31.12.2006	31.12.2005
US dollar	43 245	59 780
Euro	81 621	60 601
UK pound	16 545	21 647
Japanese yen	0	11 512
Canadian dollar	7 698	7 097
Australian dollar	13 182	6 792
Norwegian kronor	1	–
Total	162 292	167 429

Note 4 Main refinancing operations

The Riksbank's regular monetary policy repo operations are reported under this heading. The decline is due to the fact that the dividend payment to the Treasury in 2006, totalling SEK 5.300 million, was financed by a reduction in the monetary policy repo.

Note 5 Fine-tuning operations

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

Note 6 Marginal lending facility

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

Note 7 Tangible and intangible fixed assets

	31.12.2006	31.12.2005
Land and buildings		
Acquisition value on 1 January	338	340
Acquisition during the year	–	11
Reclassification	–	-13
The year's sales	–	–
Acquisition value on 31 December	338	338
Accumulated depreciation, 1 January		
	-107	-98
The year's depreciation	-9	-9
The year's sales	–	–
Accumulated depreciation, 31 December	-116	-107
Book value	222	231
Machinery and equipment		
Acquisition value, 1 January	577	533
The year's acquisition	71	46
Reclassification	–	13
The year's sales	-10	-15
Acquisition value, 31 December	638	577
Accumulated depreciation, 1 January		
	-296	-236
The year's depreciation	-91	-75
The year's sales	10	15
Accumulated depreciation, 31 December	-377	-296
Book value	261	281
Total	483	512

The item Land and buildings is used to report two properties, the Head Office and Baggensnäs. Two agreements have been entered into in 2006 regarding sale of Baggensnäs with 9 January as date of transfer of possession. The purchase price was SEK 26.3 million, SEK 2.6 million of which was received as a deposit in September, the remaining amount being received on the date of transfer of possession.

The item Book value, machinery and equipment, includes application systems at SEK 122 million (113).

Note 8 Financial assets

	31.12.2006	31.12.2005
Shares and participations		
Svensk Kontantförsörjning AB 150 000 shares	61	61
Tumba Kulturfastigheter AB 1 000 shares	0	0
Fastighets AB Växjö Lågan 22 1 000 shares	9	9
SWIFT		
35 (45) shares with a par value of EUR 125	1	1
BIS		
17 244 shares with a par value of SDR 5 000 SDR of which 25% are paid up	441	441
European Central Bank		
7% of 2.4133% of the total capital subscriptions	82	82
Total	594	594

According to agreement, a periodic review of the shareholding in SWIFT took place in April 2006, which resulted in a reduction of a total of 10 shares.

As at 1 January 2007, the Riksbank adjusted its percentage share of the European Central Bank to 2.3313% and the paid-up subscription amount by EUR 414.85 euro. This took place as a result of the accession of Bulgaria and Romania to the EU.

Note 9 Derivative instruments

	31.12.2006	31.12.2005
FX swaps, positive value	600	37
FX swaps, negative value	-263	-19
Currency forward contracts, positive value	42	–
Interest swaps, positive value	–	1
Total	379	19

Derivative instruments with a positive value are reported under this item. The nominal amounts of the derivative contracts, which are reported as memorandum items, see Note 38, are shown below:

	31.12.2006	31.12.2005
FX swaps, positive value	18 218	3 483
FX swaps, negative value	10 364	3 644
Currency forwards, positive value	1 294	–
Interest swaps, positive value	–	271
Total	29 876	7 398

Note 10 Prepaid expenses and accrued income

This item is used to report prepaid expenses and accrued income, of which SEK 2 313 million kronor (1 924) is for accrued bond interest.

Note 11 Other assets

	31.12.2006	31.12.2005
Staff loans	265	258
Claim on Crane & Co. Inc.	26	26
VAT recoverable	11	16
Other	4	5
Total	306	305

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

Note 12 Banknotes

The value of banknotes in circulation, by denomination:

	31.12.2006	31.12.2005
1 000 kronor	42 091	45 292
500 kronor	50 695	47 220
100 kronor	9 127	8 567
50 kronor	1 155	1 112
20 kronor	1 614	1 558
Commemorative banknotes	2	2
Invalid banknotes	2 178	1 765
Total	106 862	105 516

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

Note 13 Coins

The coins in circulation, by denomination:

	31.12.2006	31.12.2005
10 kronor	2 303	2 218
5 kronor	1 204	1 183
2 kronor	8	8
1 kronor	1 209	1 214
0.50 kronor	142	287
Commemorative coins	652	649
Total	5 518	5 559

In 2006, SEK 129 million has been written off and booked as other income for 50 öre coins in circulation that have ceased to be legal tender and which are no longer redeemed by the Riksbank.

Note 14 Deposit facility

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

Note 15 Fine-tuning transactions

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

Note 16 Liabilities to residents outside Sweden denominated in Swedish kronor

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

Note 17 Liabilities to resident outside Sweden denominated in foreign currency

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

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

	31.12.2006	31.12.2005
US dollars	–	1 620
Euro	5 194	–
UK pounds	1 978	5 377
Canadian dollars	777	851
Australian dollars	5 957	2 311
Total	13 906	10 159

Note 18 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 accumulated amount totals SDR 246.5 million (246.5). The current holding of SDRs amounts to SDR 257 million (123), and is reported under the item receivables from the IMF.

Note 19 Derivative instruments

	31.12.2006	31.12.2005
Gold options, negative value	3	2
Gold options, positive value	-2	-1
Interest swaps, negative value	5	–
Total	6	1

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

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

	31.12.2006	31.12.2005
Gold options, negative value	87	82
Gold options, positive value	65	82
Interest swaps, negative value	521	–
Total	673	164

Note 20 Accrued expenses and prepaid income

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

Note 21 Other liabilities

	31.12.2006	31.12.2005
Accounts payable – trade	42	63
Other	26	19
Total	68	82

Note 22 Provisions

	31.12.2006	31.12.2005
Pension liability	148	160
Other provisions	128	129
Total	276	289

The pension liability has been calculated by the National Government Employee Pensions Board (SPV) and relates to PA91 pensioners with a date of retirement prior to 2003, and persons who have been granted a partial pension from 2003 onwards or pension compensation prior to the age of 65. As of 31 December 2002, the Riksbank redeemed its pension liability for those persons who at this time had employment or were entitled to annuity at the Riksbank.

The item Other provisions includes SEK 61 million (61) for an as yet unpaid capital contribution to Pengar i Sverige AB and SEK 57 million (58) for estimated costs arising from the lease for the office in Malmö wound up in 2006. Furthermore, SEK 7 million is included for an undertaking to the National Property Board for neglected maintenance for the buildings donated by Tumba Kulturfastigheter in 2002. An additional SEK 3 million is included for funds for competence development and competence exchange which was decided in connection with the reduction of the charge to the Job Foundation.

Note 23 Revaluation accounts

	31.12.2006	31.12.2005
Price effect	435	1 698
Exchange rate effect	701	15 548
Gold value effect	7 352	6 434
Total	8 488	23 680

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

	31.12.2006	31.12.2005
US dollars	–	8 442
Euro	–	1 877
UK pounds	561	925
Japanese yen	–	369
Australian dollars	52	458
Canadian dollars	88	1 131
Special Drawing Rights	–	2 346
Total	701	15 548

Note 24 Capital

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

Note 25 Reserves

	31.12.2006	31.12.2005
Reserve fund	500	500
Contingency fund	30 031	30 188
Balancing account	23 238	25 125
Total	53 769	55 813

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

The contingency fund and the balancing account have been used since 1988 according to the guidelines for the Riksbank's allocation of net revenue adopted that year. It has also been used for entering the amounts of asset write-ups. The Riksbank's gold reserve was written up to market value on 31 December 1998, and fixed assets were entered in the balance sheet in 1994 at acquisition value minus depreciation. In 2006, a transfer has been made from the items write-up of the gold holding and fixed assets to allocation of net revenue at SEK 680 and 2 million respectively as results of divestments during the year and amortisation of the written-down assets. The value of the BIS shares were written up in 1996 to correspond to the market value of the gold paid for the share allocation the same year. The above-mentioned allocations and write-ups are shown in the table below:

	31.12.2006	31.12.2005
Allocation of net revenue:		
Exchange rate effect	5 446	6 321
Gold value effect	3 663	3 605
Other profit allocation	9 728	8 386
Write-up of assets:		
Gold reserve	10 846	11 526
Fixed assets	113	115
BIS shares	235	235
Total	30 031	30 188

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

	Capital	Reserves	Result for the year	Total
Balance 31 December 2005	1 000	55 813	3 256	60 069
Transfer to the Treasury			-5 300	-5 300
Transfer to/from:				
Balancing account		-1 887	1 887	0
Contingency fund		-157	157	0
Result for the year			7 877	7 877
Balance 31 December 2006	1 000	53 769	7 877	62 646

Note 26 Interest income

	2006	2005
From foreign assets:		
Securities	5 320	4 571
Bank deposits	802	457
Claims on IMF	129	188
Other	44	60
	6 295	5 276
From domestic assets:		
Main refinancing operations	82	135
Other	9	10
	91	145
Total	6 386	5 421

The item securities primarily includes bond interest.

Note 27 Interest expenses

	2006	2005
From foreign liabilities:		
Deposit repos	-497	-215
Special Drawing Rights	-97	-72
Other	-216	-28
	-810	-315
From domestic liabilities:		
Fine tuning operations	-3	-4
Cash deposits	-11	-
Other	-2	-1
	-16	-5
Total	-826	-320

Note 28 Net result of financial operations

	2006	2005
Price effect	-1 270	-299
Exchange rate effect	3 536	-875
Gold value effect	492	58
Total	2 758	-1 116

The price effect consists of realised gains and losses on securities of SEK -57 million and unrealised losses on securities of SEK -1 213 million, which have been transferred to the result due write-down of the securities holding.

The exchange rate effect includes realised exchange rate gains and losses of SEK 6 039 million and unrealised exchange rate losses of SEK -2 503 million, which have been transferred to result due to the write-down of the foreign currency holding. The realised exchange rate effect includes SEK 2 177 million for an exchange rate recalculation of the IMF's account for Swedish kronor. The exchange rate recalculation has arisen due to the fact that the account has been hedged in SDR in relation to the IMF which is regulated by payment transactions in Swedish kronor on the account.

The gold value effect includes a realised gain of SEK 492 million.

Note 29 Fees and commission income

The item includes annual and transaction charges for the RIX system at SEK 23 million (21) and banknote and coin delivery charges of SEK 14 million (24).

Note 30 Fees and commission expenses

This item mainly consists of expenses for securities custody accounts.

Note 31 Income from equity shares

Dividend has been received from BIS amounting to SEK 45 million (43).

Note 32 Other income

The item Other income includes SEK 129 million for writing off of 50-öre coins in circulation which have ceased to be legal tender and which are no longer redeemed by the Riksbank. This item also includes SEK 50 million for sale of invalid coins for melting down. In addition, SEK 5 million is included for requisition of value-added tax relating to previous years and SEK 2 million for operation of the Malmö office in the first six months of 2006. The item also includes SEK 1 million for daily payment from Sida for staff on loan. SEK 1 million of the remaining SEK 3 million consists of income for damaged coins where no payment could be made to the person handing in the coins.

Note 33 Staff costs

	2006	2005
Salaries and benefits	-193	-193
Pension costs	-40	-34
Social security charges	-72	-71
Training	-5	-5
Staff representation	-1	-1
Other	-5	-4
Total	-316	-308

Salaries and benefits to the members of the Executive Board amounted to SEK 10.9 million in 2006, broken down as follows:

	2006	2005
Stefan Ingves	1.5	-
Eva Srejber	1.9	1.8
Lars Nyberg	1.8	1.7
Kristina Persson	1.7	1.7
Irma Rosenberg	1.7	1.7
Svante Öberg	1.7	-
Villy Bergström	2.0	1.8
Lars Heikensten	0.6	1.5
Qualification period salaries	-2.0	2.0
Total	10.9	12.2

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

The General Council has decided that during the statutory qualification period, of no longer than a year after the cessation of employment, members of the Executive Board shall receive a full salary without obligation to perform official duties. However, a deduction will be made for any income from other employment during this period.

According to a decision of the General Council on 21 May 1999, regarding guidelines for pension conditions for members of the Riksbank's Executive Board, the regulation (RFS 1996:4) issued by the Administrative Board of the Riksdag on the implementation of the Ordinance on Pensions for Senior Government Officials, etc. (1995:1038) shall apply to members of the Executive Board. This regulation stipulates, however, that earlier provisions from 1991 shall apply to persons covered by the regulations that were rescinded on 31 December 1996 on appointment pensions etc.

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

This means that that the older Ordinance (1991:1160) applies to Eva Srejber and Svante Öberg. The older Ordinance on Pensions for Senior Government Offices (1995:1038) applies to Lars Nyberg and Kristina Persson. The Ordinance on Severance Payment for Certain Employees with in Senior Government Posts applies to Irma Rosenberg. The same Ordinance applies to Stefan Ingves with the exception of the reduction of the income guarantee for pension from the International Monetary Fund. Furthermore, according to the present arrangements, Stefan Ingves may also receive pension from BIS. This is paid to board members who have served on the board of BIS for at least four years, but only from the age of 65. The pension is calculated on the basis of paid board fees and totals 1.82 per cent of these fees.

During 2006, staff costs attributable to IT investments developed in house have been included in the acquisition value of the asset to a value of SEK 5 million (7).

The average number of employees (full time equivalents, FTEs) in 2006 totalled 404 (429) of which 179 (190) were women and 225 (239) men. The number of FTEs at the end of the year was 376 (410).

Sick leave in 2006 was 4.5 per cent (4.7) of the employees' total working hours. Sick leave over a continuous period of 60 days or more was 69.6 per cent (66.0) of the total sick leave.

Women's sick leave in relation to the total regular working hours for women amounted in 2006 to 4.6 per cent (5.0) while the corresponding figure for men was 4.4 per cent (4.4).

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

	2006	2005
29 or younger	1.0 %	0.6 %
30-49	1.9 %	2.0 %
50 or older	8.7 %	9.1 %

Note 34 Administrative expenses

	2006	2005
Information, hospitality	-9	-15
Transport, travel	-13	-15
Consultancy assignments	-42	-33
Other external services	-31	-40
IT operation	-53	-50
Economics prize	-18	-18
Office and property maintenance	-51	-70
Other	-6	-8
Total	-223	-249

Information expenses include costs for the Riksbank's regular publications (Inflation Report, Financial Stability Report and Annual Report, among other publications). In 2006, the costs have been reduced mainly because the Riksbank published three Inflation Reports instead of the previous four. The item Transport, travel includes the cost for the Riksbank's transport of banknotes and coin as well travel costs.

Consultancy expenses totalled SEK 42 million, which is higher than 2005 mainly due to work relating to the changeover which is in process for the payment system and in the field of statistics.

The largest single item in Other external services is statistics deliveries of SEK 22 million.

The item IT operations includes licensing expenses of SEK 30 million (29).

The Economics Prize item includes the prize amount of SEK 10 million and administration costs for this prize of SEK 6.5 million. Grants have also been made to the interactive Internet museum built up by the Nobel Foundation. The grant is intended to cover the cost of information about the Economics prize. By agreement, the grant is to be paid annually at SEK 1 million until and including 2008.

The largest single items in the cost group office and property maintenance cost consist of refurbishment of the Riksbank's premises, SEK 15 million (17), and SEK 12 million (17) for rent of premises.

Note 35 Depreciation of tangible and intangible fixed assets

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

Note 36 Banknote and coin expenses

Of the total cost for banknotes and coins of SEK 65 million (179), SEK 6 million (87) is in respect of the purchase of banknotes, SEK 54 million (76) purchase of coins and SEK 5 million (15) purchase of commemorative coins. In 2005, purchase of commemorative banknotes was also included at SEK 1 million.

Note 37 Other expenses

The item Other expenses refers to one-off expenses.

Note 38 Memorandum items*Assets pledged*

Securities with a market value of SEK 13 572 million (10 078) have been pledged in connection with the foreign securities repos.

Contingencies

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 8 757 million (9 644).

Undertaking to pay BIS, three months after a demand to that effect, 75 per cent of the nominal value of the Riksbank's shareholding in BIS. This undertaking corresponded to SDR 65 million (65), at the end of 2005, which is equivalent to SEK 660 million (734) at the end of 2005.

The nominal value of outstanding FX swap agreements, the book value of which is shown in Note 9, totalled SEK 28 582 million (7 127).

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

The nominal value of outstanding interest swap agreements, the book value of which is shown in Notes 9 and 19, totalled SEK 521 million (271).

The nominal value of outstanding gold option contracts, the book value of which is shown in Note 19, totalled SEK 152 million (164).

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

Undertaking to provide the Nobel Foundation with funds annually for the award of a prize in economic sciences in memory of Alfred Nobel and also administration expenses for this prize. This undertaking amounted in 2006 to SEK 18 million (18).

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

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

Five-year overview

SEK MILLION

The five-year overview presents the balance sheet and profit and loss account recalculated in accordance with current accounting principles, with the exception of no translation being made for the years 2002-2003 with regard to reporting unrealised gains and losses in special revaluation accounts.

Balance sheet	31.12.06	31.12.05	31.12.04	31.12.03	31.12.02
Assets					
Gold	22 222	22 235	17 393	18 030	18 210
<i>Claims on residents outside Sweden in foreign currency</i>					
Receivables from IMF	4 892	5 729	10 148	12 241	14 269
Balances with banks and security investments	162 292	167 429	135 108	129 031	133 659
	167 184	173 158	145 256	141 272	147 928
<i>Lending to monetary policy counterparties in Swedish kronor</i>					
Main refinancing transactions	6 700	9 600	17 000	23 800	29 179
Fine-tuning transactions	267	-	-	-	1 415
Lending facility	121	1	2	0	87
	7 088	9 601	17 002	23 800	30 681
<i>Other assets</i>					
Tangible and intangible fixed assets	483	512	538	509	455
Financial assets	594	594	410	324	382
Derivative instruments	379	19	-	-	-
Prepaid expenses and accrued income	2 429	2 183	1 963	2 005	2 558
Other assets	306	305	294	291	226
	4 191	3 613	3 205	3 129	3 621
Total assets	200 685	208 607	182 856	186 231	200 440
Liabilities and capital					
<i>Banknotes and coin in circulation</i>					
Banknotes	106 862	105 516	103 452	103 675	101 979
Coin	5 518	5 559	5 442	5 265	5 005
	112 380	111 075	108 894	108 940	106 984
<i>Liabilities to monetary policy counterparts in Swedish kronor</i>					
Deposit facility	121	23	86	49	87
Fine-tuning operations	-	227	527	491	-
	121	250	613	540	87
<i>Liabilities to residents outside Sweden in Swedish kronor</i>					
	66	94	306	125	207

Cont.

Balance sheet	31.12.06	31.12.05	31.12.04	31.12.03	31.12.02
<i>Liabilities to residents outside Sweden in foreign currency</i>	13 906	10 159	4 912	998	356
<i>Counterpart of SDRs allocated by the IMF</i>	2 540	2 797	2 537	2 647	2 929
<i>Other liabilities</i>					
Derivative instruments	6	1	85	16	17
Accrued expenses and prepaid income	188	111	100	81	143
Other liabilities	68	82	69	71	77
	262	194	254	168	237
<i>Provisions</i>	276	289	304	396	443
<i>Revaluation accounts</i>	8 488	23 680	1 523	-	-
<i>Equity capital</i>					
Capital	1 000	1 000	1 000	1 000	1 000
Reserves	53 769	55 813	65 317	80 697	88 268
	54 769	56 813	66 317	81 697	89 268
<i>Result for the year</i>	7 877	3 256	-2 804	-9 280	-71
Total liabilities and capital	200 685	208 607	182 856	186 231	200 440
Profit and Loss Account	2006	2005	2004	2003	2002
Interest income	6 386	5 421	4 778	5 316	7 220
Interest expenses	-826	-320	-290	-121	-206
Net result of financial operations	2 758	-1 116	-6 317	-13 287	-5 717
Fees and commission income	37	45	19	18	10
Fees and commission expenses	-9	-7	-9	-8	-3
Income from equity shares	45	43	42	185	39
Other income	190	10	24	5	4
Total net income	8 581	4 076	-1 753	-7 892	1 347
Staff costs	-316	-308	-309	-323	-337
Administrative expenses	-223	-249	-231	-228	-216
Depreciation of tangible and amortisation of intangible fixed assets	-100	-84	-69	-72	-69
Banknote and coin expenses	-65	-179	-160	-244	-322
Other expenses	-	-	-282	-521	-474
Total expenses	-704	-820	-1 051	-1 388	-1 418
Result for the year	7 877	3 256	-2 804	-9 280	-71

The Riksbank's subsidiaries

Svensk Kontantförsörjning AB and subsidiaries

Svensk Kontantförsörjning AB (SKAB) is a wholly-owned subsidiary of the Riksbank. The subsidiaries that were previously part of the SKAB group, Svenska Kontanthanteringssystem AB, Svenska Kontanthanteringssystem AB and Swedcash AB, merged with SKAB on 4 May 2006. The remaining subsidiary Pengar i Sverige AB (PSAB) is in process of liquidation, which is expected to be completed during the second quarter of 2007.

A conciliation was reached in May 2006 with PSAB's insurance company concerning compensation for a robbery against one of PSAB's cash-in-transit operations.

Cash management in the SKAB group was terminated during 2004. In 2005 and 2006, the operation has focused on winding up the remaining undertakings at as low cost as possible. SEK 10.0 million was set aside in the accounts for 2005, of which SEK 3.6 million in the parent company fore estimated remaining winding-up expense. The result for 2006 for the group was SEK 9.6 million, of which SEK -0.9 million was in the parent company. This positive result can partly be attributed to the compensation received for lost banknotes.

According to a decision of the annual general meeting of SKAB on 15 June 2006, the company entered liquidation on that date. The Swedish Companies Registration Office appointed attorney Malin Sandquist vid Advokatfirman Hammarskiöld & Co as liquidator of the company on 12 July 2006.

The liquidation is expected to have been completed in the second quarter of 2007.

Profit and Loss Account (consolidated), SEK million

	2006	2005
Operating income	6	2
Operating expenses	4	-10
Operating profit	10	-8
Financial items	0	0
Profit/loss after financial items	10	-8
Tax on result for the year	-	-
Result for the year	10	-8

Balance sheet (consolidated), SEK million

	31.12.2006	31.12.2005
Current assets	70	75
Total assets	70	75
Equity capital	70	60
Provisions	-	11
Current liabilities	0	4
Total equity and liabilities	70	75

Liquidator

Malin Sandquist
Advokatfirman Hammarskiöld & Co

Address

Svensk Kontantförsörjning AB
c/o Sveriges Riksbank
SE-103 37 Stockholm

Tumba Kulturfastigheter AB

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

The company was involved in the preparations for developing and inaugurating Tumba Bruksmuseum in four of the buildings in the industrial area. The museum was inaugurated on 4 June 2005.

In December 2006, the remaining land areas in Tumba, some housing land in Uttran, and a large area of land in Lilltumba, were sold to the municipality of Botkyrka for SEK 19 million. The Board of Directors of Tumba Kulturfastigheter AB will propose to the owner, Sveriges riksbank, that the company be liquidated.

Profit and Loss Account, SEK million

	2006	2005
Operating income	19.0	0.0
Operating expenses	-0.0	-0.0
Operating profit/loss	19.0	0.0
Financial items	0.0	0.0
Profit/loss after financial items	19.0	0.0
Tax on profit/loss for the year	-5.3	-
Result for the year	13.7	-0.0

Balance sheet, SEK million

	31.12.2006	31.12.2005
Current assets	15.5	1.8
Total assets	15.5	1.8
Equity capital	15.5	1.8
Liabilities	0.0	0.0
Total equity capital and liabilities	15.5	1.8

Board of directors

Pether Burvall, Chairman
Kersti Eriksen

Address

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

Fastighets AB Växjö Lågan 22

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

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

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

Växjö Lågan has been for sale in recent years. However, it has neither been possible to sell the property nor the company for a reasonable price. The Riksbank has previously made the assessment that the property, with strategically valuable secure premises for money operations, should command a higher market value given the new depot structure in cash management established.

Discussions have therefore taken place with potential purchasers and tenants in the sphere of cash handling. There is as yet no tenant for the payment operations premises. However, the aim is none the less to sell the company, or sell the property and wind up the company, during 2007.

Profit and Loss Account, SEK million

	2006	2005
Operating income	1.1	1.5
Operating expenses	-1.3	-1.2
Operating profit/loss	-0.2	0.3
Financial items	0.0	0.0
Profit/loss after financial items	-0.2	0.3
Tax on the year's result	0.0	-0.1
Result for the year	-0.2	0.2

Balance sheet, SEK million

	31.12.2006	31.12.2005
Fixed assets	9.3	9.5
Current assets	0.8	0.9
Total assets	10.1	10.4
Equity capital	9.6	9.8
Liabilities	0.5	0.6
Total equity capital liabilities	10.1	10.4

Board of Directors

Kai Barvell, Chairman
Kersti Eriksen
Pether Burvall

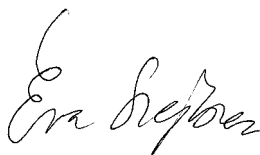
Address

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

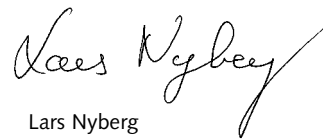
Stockholm, 8 February 2007



Stefan Ingves
Governor



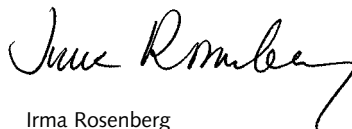
Eva Srejber
First Deputy Governor



Lars Nyberg
Deputy Governor



Kristina Persson
Deputy Governor



Irma Rosenberg
Deputy Governor



Svante Öberg
Deputy Governor

■ Proposal for the allocation of profits for 2006

The Riksdag approved in connection with its consideration of the Riksbank's management for the year 2005 (2005/06 FiU:23) that the allocation of profits for 2005 should be based on the 1988 principle of allocation of profits with the supplements to the principle made since then, which was the proposal put forward by the General Council. The principle of allocation of profits entails 80 per cent of the average profits for the past five years, excluding exchange rate and gold evaluation effects, being transferred to the Treasury. The General Council applies the same basis for calculation for the year 2006.

Pursuant to Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council has received a report for the financial year 2006 from the Executive Board. The General Council observes that the Riksbank with the application of the current accounting principles reports a profit for 2006 amounting to SEK 7 877 million. In accordance with the 1988 principle of allocation of profits and the supplements to the principle made since then, the following adjustments are made to the reported profits when calculating the result used as a basis for the transfer:

1. The reported result has been positively affected by an exchange rate gain of SEK 3 536 million. In accordance with the allocation of profits principle, this profit is excluded when calculating the result on which the transfer to the Treasury is based.
2. The Riksbank has reported a profit of SEK 492 million as a result of sales of gold during 2006. The General Council have, in accordance with the earlier decided supplement to the principle of profit allocation, excluded this profit when calculating the allocation of the profits.

3. An unrealised price effect loss of SEK 1 263 million is not included in the reported result because of the change in accounting principles that came into force in 2004. The General Council has included this loss when calculating the allocation of profits, in accordance with the principle applied.

The General Council proposes as described below a transfer to the Treasury of SEK 4 400 million.

As the proposed transfer is lower than the profits reported for the year, it is proposed that SEK 4 577 million be transferred to the contingency fund and SEK 1 100 million be transferred from the balancing account. The basis used for calculating the proposal for the allocation of profits is shown in the appendix.

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

The General Council decided on 9 February 2007 to submit the following proposal for the allocation of the Riksbank's profits.

The profit before appropriations for 2006 amounts to SEK 7 877 million.

The General Council proposes that:

SEK million	
Transfer to the Riksbank's contingency fund	-4 577
Transfer from the Riksbank's balancing account	1 100
Transfer to the Treasury	4 400

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

■ Auditor's report

The Swedish National Audit Office (Riksrevisionen) has audited the Annual Report of Sveriges Riksbank, approved by the Executive Board of the Riksbank on 8 February 2007, for the financial year 2006.

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

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

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

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

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

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

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

Furthermore, Riksrevisionen recommends to the Swedish Parliament that the General Council of the Riksbank be discharged from liability for operations and that the Executive Board be discharged from liability for administration of the Riksbank in 2006.

The decision was made by Filip Cassel, Audit Director. The audit was presented by Jonas Hällström, Audit Director.

Stockholm, 9 February 2007

Filip Cassel Jonas Hällström

■ The Riksbank's consultation responses

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

During 2006, the consultation work has been dominated by issues relating to regulations in the financial sector. To a great extent, this has concerned proposals for implementation of EU regulations into Swedish legislation or regulations from Finansinspektionen. Otherwise, there are usually a number of consultation documents in the sphere of monetary policy. In 2006, only a few consultation documents have concerned this area.

The following consultation responses were decided by the Executive Board of the Riksbank in 2006. Unless otherwise stated, decisions have been made by Deputy Governor Svante Öberg who was responsible for preparing matters relating to consultation opinions.

Ministry of Finance

08.12.2006

Comments on the Ministry of Finance's consultation document on the ordinance on capital adequacy and large exposures.

08.12.2006

Comments on complementary consultation document concerning the draft section on transparency in the coming consultation document to the Council on Legislation "New legislation on the securities market".

08.11.2006

Comments on consultation document "A reformed solvency system for insurance companies".

19.10.2006

Comments on consultation document on a new right of association of insurance companies (SOU 2006:55). A decision in this matter has been made by the Executive Board of the Riksbank.

11.10.2006

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

14.08.2006

Comments on the report New legislation on the securities market (SOU 2006:50 and SOU 2006:74).

07.06.2006

Comments on Conditions of access for payment systems – differences for small and large banks (Swedish Competition Authority – report series 2006:1). A decision in this matter has been made by the Executive Board of the Riksbank.

31.05.2006

Comments on consultation document concerning a draft consultation document to the Council on Legislation concerning transfer of insurance savings, a supplement.

31.05.2006

Comments on consultation document on information requirements in listed companies and related matters (Ds 2006:6).

23.03.2006

Comments on consultation document on the Ministry of Finance's memorandum on new capital adequacy regulations. A decision in this matter has been made by the Executive Board of the Riksbank. A special statement with technical comments prepared by Martin Andersson, Head of the Financial Stability Department on behalf of the Executive Board.

27.02.2006

Comments on Difficult waters? Premium pension savings on course (SOU 2005:87).

10.02.2006

Comments on the consultation document Supervision in the sphere of insurance (SOU 2005:85).

23.01.2006

Comments on the memorandum on redemption of minority shares in insurance limited companies.

Finansinspektionen

22.12.2006

Comments on consultation document on Changes in the accounting regulations on capital adequacy analysis.

08.12.2006

Comments on Finansinspektionen's consultation document on proposed new regulations on a) capital adequacy and large exposures, b) credit rating companies c) publication of information, d) reporting of liquidity risks, and e) reporting of interest risks.

22.11.2006

Comments on accounting-related matters concerning the application of and transition to statute-limited IFRS for unlisted financial undertakings.

08.11.2006

Comments on Finansinspektionen's proposed IFRS adaptations of formats (consultation document responses and Finansinspektionen's replies).

06.09.2006

Comments on consultation document on proposed changes to the accounting regulations on capital adequacy analysis.

14.08.2006
Comments on the Finansinspektionen's proposals on IFRS adaptations of formats.

04.05.2006
Comments on consultation document on regulations and general guidelines on special supervision of financial conglomerates, etc.

04.04.2006
Comments on consultation document from the Finansinspektionen on changes in regulations for investment funds (FFFS 2004:2) and changes in electronic attachments.

Ministry of Justice

17.11.2006
Comments on consultation document on a new Corporate form and on the consultation document to the Council on Legislation Some corporate law issues.

14.08.2006
Comments on the report Securities brokerage – and new brokerage legislation (SOU 2005:120).

22.05.2006
Comments on the report Responsibility for payment in the event of unauthorised use of credit cards and related matters (SOU 2005:108).

18.04.2006
Comments on the Ministry of Justice's memorandum Some corporate law issues.

02.02.2006
Comments on the draft consultation document to the Council on Legislation on authorisation of cash-in-transit operations.

Ministry of Enterprise, Energy and Communications

17.11.2006
Comments on consultation document on the report, Development of Sitic, Sweden's IT incident centre.

15.06.2006
Comments on the report Good practice in wage formation (SOU 2006:32). A decision in this matter has been made by the Executive Board of the Riksbank.

Riksdag Administration

26.06.2006
Comments on the report Registration of the commitments and financial interests of Members of Parliament (2005/06:URF4).

17.03.2006
Comments on the Riksdag Administration's memorandum New regulation on security and related matters.

10.02.2006
Comments on the Riksdag Board's presentation The Riksdag in a new era (2005/06:RS3).

Statistics Sweden

22.11.2006
Comments on the proposed revised standard for business sector categorisation.

■ Publications

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

The Inflation Report

(from 2007, the Monetary Policy Report)

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

The Financial Stability Report

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

Sveriges Riksbank Economic Review

Issued three times a year and contains articles on subjects in the Riksbank's field of activities.

The Annual Report

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

The Working Paper Series

Presents reports connected to the Riksbank's field of operations that are also considered to be of interest to parties outside the bank.

Publications from the European Central Bank, ECB

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

Address

Sveriges Riksbank
SE-103 37 Stockholm
Telephone +46 8 787 00 00
www.riksbank.se

■ Glossary

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

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

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

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

ECB The European Central Bank. The ECB is the common central bank for the thirteen EU member states which have adopted the euro. The ECB has its office in Frankfurt.

EFC The EU Economic and Financial Committee. Advises the Ecofin Council and the European Commission on economic policy and financial matters.

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

ESCB The European System of Central Banks. This is the generic term for the ECB and the 27 national central banks in the EU member states.

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

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

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

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

Foreign exchange reserve A central bank's holdings of assets in foreign currency, which enables it to intervene and affect the value of the country's own currency in relation to other currencies, when necessary.

Foreign exchange swap A simultaneous swap and forward transaction in one currency for another. The Riksbank buys (or sells) a foreign currency spot and sells (or buys) at the same time back kronor to be delivered on a future date at a predetermined price.

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

IFRS International Financial Reporting Standards

IMF International Monetary Fund (IMF). The International Monetary Fund was formed in 1944, to promote trade and growth by promoting economic, monetary and financial stability. IMF now has 184 member countries and the Riksbank is the liaison body for Sweden.

Implied forward rates Calculated on the basis of interest rate listings on treasury bills and government bonds, showing the repo rate which is expected on the basis of these listings.

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

Information ratio Measures a portfolio's relation between return in relation to its comparative index and its active risk. Active risk is measured as a standard deviation of the portfolio's relative weekly return (compare with tracking error). A positive information ratio means that the active risktaking has been profitable.

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

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

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

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

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

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

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

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

Repo A repurchase transaction whereby securities are bought (or sold) with a simultaneous agreement to sell (or buy) back at a predefined time. A monetary policy repo means that the Riksbank supplies funds to the banking system by buying securities from the banks and at the same time agrees to sell back the securities to the banks after one week (among market participants this is known as a reverse repo). The Riksbank then gets the funds back, and the securities are returned to the original owner. The Riksbank usually carries out repos every week.

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

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

RIX The Riksbank's system for the settlement of large-value interbank payments. The system settles payments in kronor (K-RIX) in accordance with the principle of real-time gross settlement.

SDR Special Drawing Rights. International reserve asset created by the IMF for allocation to member states. See the Riksbank's balance sheet. The value of SDR is calculated as a basket of major currencies (US dollar, euro, Japanese yen and pound sterling).

Settlement Transfer of money or assets from one party to another in order to settle a debt. In the RIX system, settlement occurs by transferring funds between two participants' accounts.

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

Target The EU's common payment system to which member states' national payment systems in euro are linked.

Tracking error (Active risk) Calculated as the standard deviation for the difference in the weekly yield between the foreign exchange reserve and its benchmark index. The tracking error shows how large the average deviation in the yield has been compared with the comparative index. If the manager decides to deviate from the comparative index, this decision will entail a higher active risk and probably a greater difference in profits. Conversely, if the portfolio has been positioned to 100 per cent as its comparative index, this entails an active risk of 0 per cent.

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

US agencies US mortgage institutions associated with the US government. The Riksbank invests in the following institutions: Tennessee Valley Authority and the housing institutions Federal Home Loan Bank, Fannie Mae and Freddie Mac.

Value dating A physical transaction whereby cash is accepted in (or delivered from) the Riksbank's vault stocks on behalf of a bank or the Swedish Cashier Service (Svensk kassaservice). An amount is thereby deposited in (or withdrawn from) the bank's account at the Riksbank, affecting the calculation of interest for the bank concerned.

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

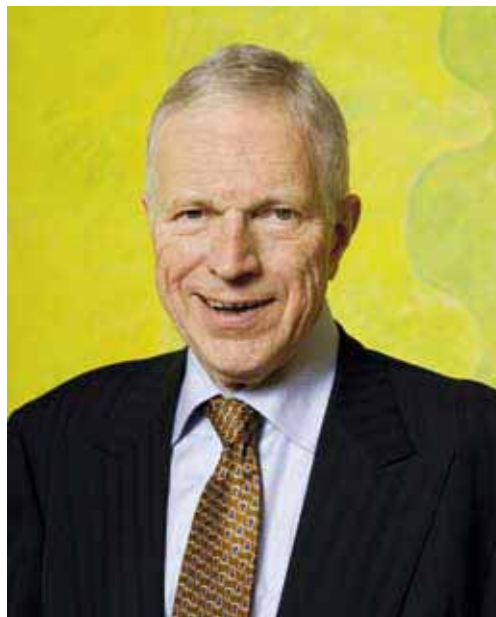
■ The Riksbank's Prize in Economic Sciences 2006

Sveriges Riksbank's Prize in Economic Sciences in Memory of Alfred Nobel 2006 was awarded to Edmund S. Phelps, Columbia University, NY, USA. His work has deepened our understanding of the relation between short-run and long-run effects of economic policy. These contributions have had a decisive impact on research as well as policy.

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

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

Edmund S. Phelps was born in 1933 in Evanston, IL, USA (US citizen). PhD in Economics in 1959 at Yale University, CT, USA. McVickar Professor of Political Economy at Columbia University, NY, USA.



Edmund S. Phelps at Columbia University, NY, USA.

Previous prize-winners

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

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



Sveriges Riksbank
SE-103 37 Stockholm
(Brunkebergstorg 11)

www.riksbank.se
Telephone: +46 8 787 00 00
Fax: +46 8 21 05 31