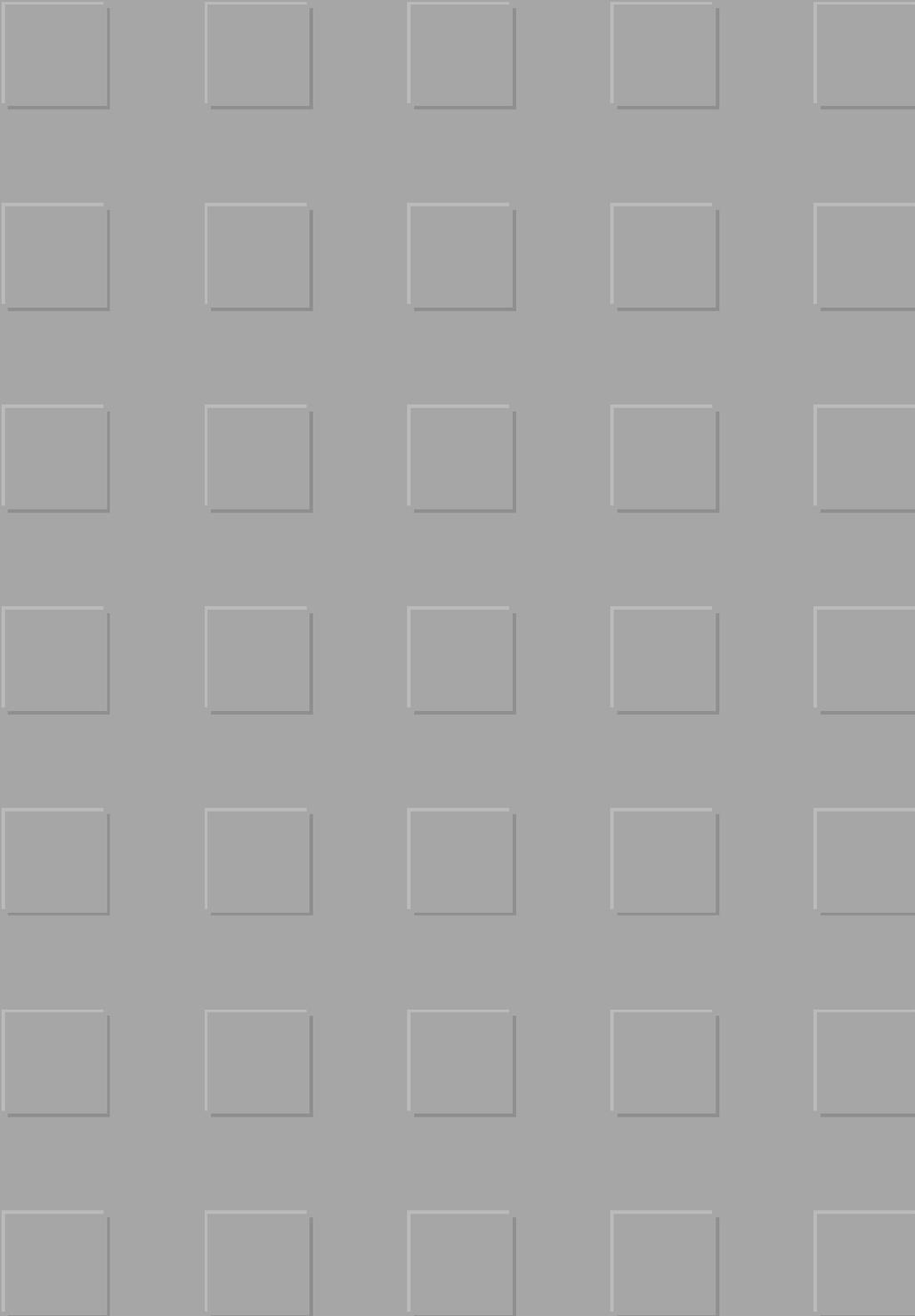




Sveriges Riksbank

ANNUAL REPORT 2001



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IMPORTANT DATES 2002

Executive Board monetary policy meeting	7 February
Executive Board monetary policy meeting	18 March
<i>Inflation Report no. 1 published</i>	19 March
The Governor attends the Riksdag Finance Committee hearing	19 March
Executive Board monetary policy meeting	25 April
Executive Board monetary policy meeting	5 June
<i>Inflation Report no. 2 published</i>	6 June
Executive Board monetary policy meeting	4 July
Executive Board monetary policy meeting	15 August

The dates for the monetary policy meetings in the autumn have not yet been confirmed. Information on monetary policy decisions is usually published on the day following a monetary policy meeting.

THIS YEAR'S PHOTOGRAPHIC THEME

Sveriges Riksbank is a knowledge organisation and the bank aims to achieve a learning climate that stimulates and develops employees. Employees can acquire knowledge both through training and in working together with colleagues and external contacts. The Riksbank's independent position requires openness with regard to the motives behind its decisions. As a means of increasing openness, the Riksbank holds press conferences at which the bank's analyses and conclusions are presented. The Riksbank also organises various courses and seminars. Exchange of knowledge in different forms is the pictorial theme in this year's annual report.

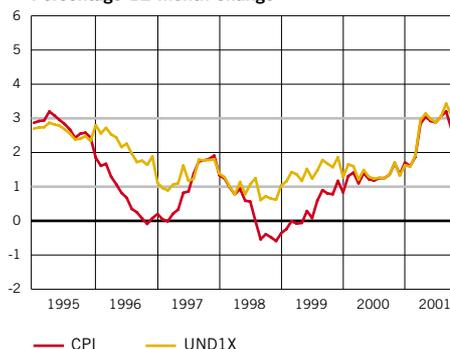
Sveriges Riksbank

Sveriges Riksbank, the Riksbank, is Sweden's central bank and an authority under the Riksdag, the Swedish parliament. The bank's tasks are to maintain price stability and to promote a safe and efficient payment system. The Riksbank shall limit inflation to enable the Swedish krona to retain its value. The bank's primary instrument for influencing inflation is the repo rate, which is set by the Executive Board.

To ensure that its interest rate decisions are well founded, the Riksbank has considerable resources for economic analysis and research at its disposal. These analyses also form the basis for the bank's oversight of financial stability. The Riksbank monitors and reports on the functioning of the banks and the financial markets in order to promote a safe and efficient payment system.

The Riksbank is governed by an Executive Board consisting of one Governor, Urban Bäckström, and five deputy governors. The members of the Executive Board are appointed by the General Council of the Riksbank for a period of six years. The Riksbank is situated at Brunkebergstorg in central Stockholm and has 470 employees.

Diagram 1. Inflation measured by CPI and UND1X respectively
Percentage 12-month change



Note: The Consumer Price Index (CPI) = the average level of prices for private consumption.
Underlying inflation (UND1X) = CPI excluding house mortgage interest expenditure and direct effects of changes in indirect taxes and subsidies.
The grey horizontal lines show the Riksbank's tolerated deviation interval for changes in CPI.
Source: Statistics Sweden.

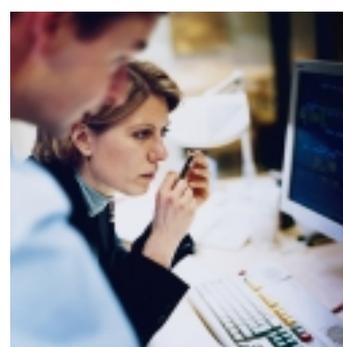
The year in figures	2001	2000	1999
At the end of the year:			
Result for the year (SEK billion)	19.3	20.3	3.9
Proposed transfer to the Treasury (SEK billion)	27.3 *	28.2 **	9.8
Gold and foreign currency reserve (SEK billion)	165	168	153
Number of employees	471	469	466
Repo rate (per cent)	3.75	4.00	3.25
Short-term rate (three months SSVX, per cent)	3.70	4.09	3.51
Long-term rate (ten year treasury bonds, per cent)	5.35	4.86	5.73
On average:			
GDP (percentage change)	1.2	3.6	3.8
Unemployment (per cent)	4.0	4.7	5.6
CPI inflation (percentage change)	2.6	1.3	0.3
UND1X inflation (percentage change)	2.8	1.4	1.4

* This amount consists of SEK 7.3 billion from the profits and SEK 20 billion as an extra dividend payment.

** This amount consists of SEK 8.2 billion from the profits and SEK 20 billion as an extra dividend payment.

2001 in brief

- The CPI inflation rate was 2.6 per cent over the year. Stability in the financial system was good. Economic growth in Sweden was estimated to have amounted to 1.2 per cent.
- On 5 July the Riksbank raised its repo rate by 0.25 percentage points, from 4 per cent to 4.25 per cent, with effect from 11 July. On 17 September the repo rate was lowered by 0.5 percentage points, to 3.75 per cent, with effect from 19 September. At the end of the year, the repo rate was 3.75 per cent.
- The Riksbank intervened on the foreign exchange market on 15, 18 and 25 June with the aim of strengthening the krona.
- During the year, the Riksbank published four Inflation Reports and two Financial Stability Reports. The members of the Executive Board made a total of more than 100 public speeches between them.
- The General Council of the Riksbank appointed Kristina Persson member of the Executive Board in January, for a period of six years with effect from 1 May 2001. In November, Villy Bergström was re-appointed to the Board for a period of six years with effect from 1 January 2002.
- The Riksbank signed an agreement with the American company Crane & Co regarding the sale of Tumba Bruk's banknote printing works and paper mill. At the same time, an agreement was signed with the Finnish state-owned Mint Rahapaja Oy regarding the sale of the Swedish Mint. These divestments are part of the bank's endeavour to concentrate its operations on its main tasks.
- For the same purpose, the Riksbank signed an agreement that entails Statistics Sweden taking over the production and development of the Riksbank's financial market statistics and parts of the balance of payments statistics with effect from 2003.
- Upgraded 100-krona and 500-krona banknotes were introduced on 1 October. The banknotes have been furnished with a larger number of security details that make them more difficult to counterfeit. During the year the one-krona and ten-krona coins were also updated.
- The central government received an extra dividend of SEK 20 billion on 13 June 2001, in accordance with a decision by the Riksdag.
- The Riksbank's profits was SEK 19.3 billion. The General Council proposes to the Riksdag that SEK 7.3 billion of the profits, plus a further SEK 20 billion in the form of an extra dividend payment, be transferred to the Treasury.



Monetary policy faced several challenges over the year

The slowdown in global economic activity became increasingly pronounced over the year. The tragic events in the USA on 11 September contributed to a more profound decline, which also affected Sweden. At the same time, domestic inflation rose during the year, which provided several challenges for monetary policy.

The terrorist attack in the USA on 11 September casts a shadow over the past year. The attack shook up the global financial markets. However, a number of the world's central banks, headed by the US Federal Reserve, took rapid action to ensure there was good access to liquidity and to counteract spread effects which could have aggravated the situation even further. The Riksbank also took part in this work. Special groups within the bank were activated an hour or so after the attack and the bank quickly established contact with Swedish banks, Finansinspektionen (the Swedish Financial Supervisory Authority) and the Ministry of Finance, as well as other central banks and supervisory authorities around the world.

Measures were taken to safeguard the functioning of the payment system. The US central bank, the Federal Reserve, and the European Central Bank, ECB, signed an agreement giving banks in the euro zone access to US dollars through the Eurosystem in order to facilitate payments in US dollars. Following on from this, the Executive Board of the Riksbank decided that the Riksbank should place a maximum facility of one billion dollars at the disposal of the Swedish banks. However, the situation on the US daily lending market gradually normalised and the Swedish banks did not need to utilise the opportunity to borrow dollars from the Riksbank.

While measures to provide support for the payment system were being taken, the Riksbank began analysing the effects of the attacks on economic developments and inflation prospects. Barely one week after the attack – on Monday 17 September – a number of central banks around the world, including the Riksbank, lowered their instrumental rates. A unanimous Executive Board decided that there was a risk that companies' and households' confidence in the fu-

ture would deteriorate and give rise to a more profound and prolonged downturn, which would indicate that inflation in two years' time risked falling below the 2 per cent target.

In my opinion, the Riksbank's routines worked well. There was no major damage to the financial system. However, I cannot help a feeling of sorrow and powerlessness at the loss of so many lives.

More profound slowdown in economic activity and rise in inflation

The slowdown in international economic activity became more evident over the course of the year. Growing imbalances in the USA, following several years of strong growth in demand made the slowdown in economic activity all the more pronounced and lengthy. It spilled over into the rest of the world. The acts of terrorism in September added further weight to the load as they increased uncertainty among households and companies. The global downturn left a clear imprint on the Swedish economy. After several years of strong growth in demand, there was a slowdown, particularly in the technology-dominated export sector. This also affected households' willingness to consume, partly through the effects of a decline in the value of shares.

While economic activity slowed down over the year, inflation in Sweden rose. The Inflation Report published in December 2001, in common with previous reports, assessed that the rise in the inflation rate was mainly of a temporary nature, caused by factors that were difficult to predict, such as foot and mouth disease and production problems in oil refineries. According to the estimates in the inflation reports, the rise that began in April 2001 was expected to subside during spring 2002 as the effects of temporary price increases on inflation abate.

Over the year the krona depreciated substantially, which made it more difficult to assess inflation prospects. Following a surprisingly rapid depreciation from an already low level in the early summer, the Riksbank decided on 14 June to intervene in the foreign exchange market. The background to this was that the exchange rate was estimated to comprise the largest individual risk that the inflation target



Governor of the Riksbank Urban Bäckström

of 2 per cent would be exceeded in one to two years' time. It is important to remember in this context that the Riksbank does not have a target for the exchange rate. Instead, it is one of several factors included in the total assessment of inflation made by the Riksbank. During the autumn the krona showed a weaker development than expected. However, it was estimated that the effects on inflation would be counteracted by falling international export prices and a subdued domestic demand.

Continued concentration of operations

During 2001, the Riksbank continued the work of concentrating its operations on the bank's main tasks. With regard to the task of ensuring the supply of banknotes and coins, the Riksbank sees no reason to continue to take an ownership responsibility for production. The Executive Board therefore decided in autumn 2000 to seek new owners for AB Tumba Bruk. In December 2001 an agreement to sell

the company was signed. The American company Crane & Co, which has supplied banknote paper to the US Bureau of Engraving and Printing, printers of the US dollar notes, for more than 100 years, is buying the paper mill and printing works at Tumba Bruk. The Swedish Mint is being sold to the Finnish state-owned mint, Rahapaja Oy. Both of the new owners possess good technical competence in their fields and have a strong presence on their respective markets. I am convinced that the operations at Tumba Bruk will now have the best possible opportunities for remaining going concerns.

Credibility is one of the corner stones of an efficiently functioning central bank. If we achieve our set objectives, namely maintaining price stability and promoting a safe and efficient payment system, this will lay a good foundation. If we can also explain in an open and clear manner what we are doing and why, I believe that this will further reinforce our credibility. As a part of this work, we chose in November to publish the minutes from the decision to intervene in the foreign exchange market. This included detailed minutes of a meeting where the Executive Board assessed the interventions. The publication of this information is unique. Central banks do not normally publish information regarding foreign exchange interventions only a few months after they have been made.

The past year has been filled with upheavals in many respects and has provided numerous challenges for the Riksbank and for monetary policy. The workload has been enormous at times, partly because of events in the world around us and uncertainty over economic developments. I would therefore like to thank my colleagues on the Executive Board, the General Council and the employees of the Riksbank for their sterling work during the past year.

Stockholm, February 2002

A handwritten signature in blue ink, which appears to read 'Urban Bäckström'.

Urban Bäckström



Co-operation to achieve objectives. The forms for the internal work at the Riksbank vary, from project work across departmental boundaries to informal co-operation between colleagues. The Riksbank also has extensive international work with many external contacts. Riksbank employees participate in more than 100 international groups and committees.



Complicated monetary policy balance

Inflation amounted to 2.6 per cent in 2001, when measured as CPI inflation, and to 2.8 per cent when measured as the underlying inflation rate, UND1X. Economic growth is estimated at 1.2 per cent, while employment has increased by 1.9 per cent. During the year there was a slow-down in economic activity without a reduction in the rate of price increase. This made it difficult to balance monetary policy considerations, particularly as the krona at times depreciated markedly. The Riksbank chose to raise its instrumental rate, the repo rate, in July and lower it in September, following the terrorist attacks in the USA. At the end of the year, the repo rate was 3.75 per cent.

A gradual decline in economic growth, both internationally and in Sweden, characterised 2001. At the end of the year, it was estimated that growth in the OECD amounted to approximately 1 per cent, which was tangibly lower than 2000, when growth was 3.4 per cent. This development led during the latter part of the year to diminishing inflationary pressure in most countries.

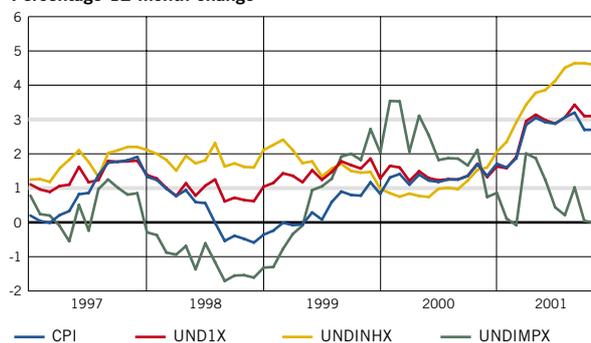
In Sweden the inflation rate exceeded the set price stability target of 2 per cent during 2001, although it remained within the tolerated deviation interval of ± 1 percentage point. During a large part of the year the twelve-month figures for CPI and UND1X coincided. Towards the end of the year, however, the decision to lower the rate in September and a reduction in property tax led to a slightly lower rate of increase for CPI inflation than for underlying inflation, UND1X.

The inflation rate rose markedly during the spring and then remained at levels around 3 per cent for the remainder of the year. Price increases were primarily concentrated to food and energy, which are goods categories that normally show considerable variation in price. The price rise on these goods was assessed to be temporary to a large extent and caused by disturbances in supply. Nevertheless, even excluding these temporary price changes, the inflation rate rose. Falling oil prices over the course of the year contributed to holding back price increases on imported goods. Changes in the prices to consumers of imported processed goods

hovered around zero during the first half of the year, rising to an annual rate of approximately 2 per cent thereafter.

Inflation in Sweden was marginally higher during 2001 than inflation in the major EU countries. The average HICP rate was 2.7 per cent in Sweden, while the corresponding figure for the euro zone was 2.6 per cent. This differed from the immediately preceding years, when inflation in Sweden was much lower than in the rest of the EU.

Diagram 2. Different measures of inflation.
Percentage 12-month change



Note: The grey horizontal lines show the Riksbank's tolerated deviation interval for changes in CPI.
Source: Statistics Sweden.

INDEXES OF INFLATION

Change in:

Consumer price index (CPI) = the average level of prices for private consumption.

Underlying inflation (UND1X) = CPI excluding house mortgage interest expenditure and direct effects of changes in indirect taxes and subsidies.

Domestic underlying inflation (UNDINH) = CPI excluding import price movements, changes in interest expenditure and direct effects of changes in indirect taxes and subsidies.

Harmonised index of consumer prices (HICP) = CPI excluding house mortgage interest expenditure, tenant-owned housing charges, lotteries, pools and totaliser betting, etc. HICP also includes certain costs not contained in the CPI at present, e.g. childcare charges.

Underlying imported inflation (UNDIMPX) = CPI on mainly imported goods, adjusted for direct effects of changes in indirect taxes and subsidies.



The monetary policy target

According to the Sveriges Riksbank Act, the monetary policy target is “to maintain price stability”. The Riksbank has specified this objective as follows. The target for monetary policy is to hold the rate of CPI inflation at 2 per cent \pm 1 percentage point. This target was established in January 1993.

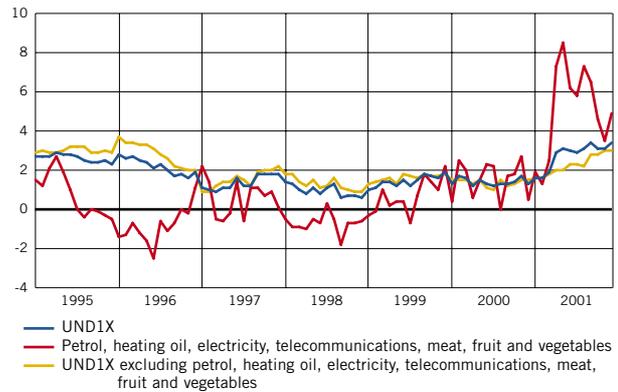
It is estimated that monetary policy has its greatest impact on inflation with a time lag of one to two years. The Riksbank therefore bases its policy on an assessment of the path of inflation during that time horizon.

Monetary policy can be described in simple terms with the aid of a rule of thumb; if the Riksbank’s forecasts for inflation one to two years ahead indicate that the rate will deviate from the target, then the repo rate is adjusted accordingly.

However, the Riksbank has also stated two specific reasons for deviating from this rule of thumb. One is that the Riksbank may decide to disregard temporary effects on the consumer price index, which it should make clear when the decision on the repo rate is taken. In practice, monetary policy was based on the underlying inflation rate, UND1X, during 2001.

Another reason for departing from the rule of thumb is that a return to the targeted rate in one to two years’ time could be costly for the real economy. There may then be good reason to aim for a more gradual return of inflation to the target level.

Diagram 3. UND1X excluding certain goods.
Percentage 12-month change



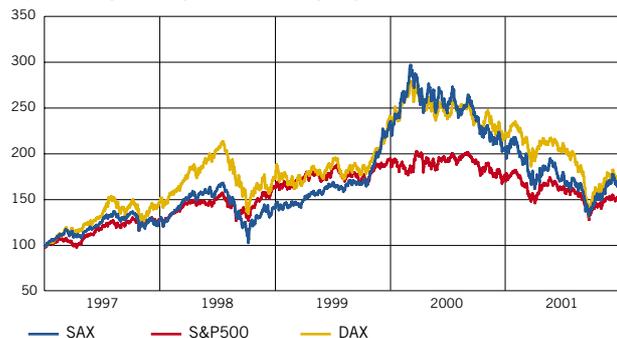
Sources: Statistics Sweden and the Riksbank.

Inflation expectations during 2001 remained well in line with the inflation target, even if some surveys towards the end of the year indicated slightly rising inflation expectations in parts of society.

Global economy weakened

Growth rates in most countries declined and this downturn was reinforced over the course of the year. The economic downturn in the USA was particularly marked, with the terrorist attack on 11 September increasing uncertainty over future developments. In Japan the gross domestic product declined by approximately one percentage point.

Diagram 4. Stock market developments in Stockholm (SAX), New York (S&P500) and Frankfurt (DAX)



Note: Index 30 December 1996 =100.
Sources: Bloomberg and Hanson & Partners AB.

The weak growth in economic activity and falling oil prices contributed to a slight decline in inflation in some larger countries. Japan experienced another year of falling prices.

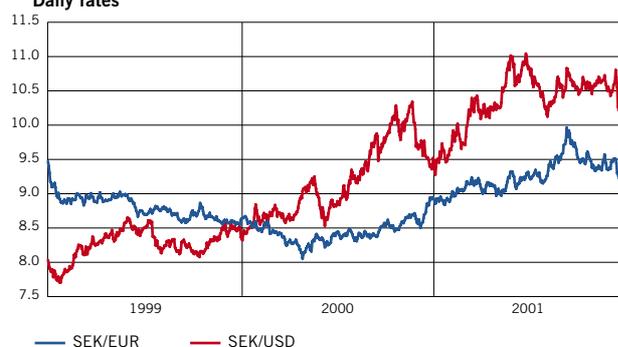
This development resulted in a changeover to a more expansive monetary policy in several OECD countries. In the USA and the UK, e.g., the instrumental rates were lowered

in stages to the lowest levels experienced since the early 1960s. The European Central Bank, ECB, also lowered its instrumental rate in several stages during the second half of the year, to 3.25 per cent.

Prices on the stock markets continued to fall heavily during the spring and summer. In several countries, the total decline from the peak levels in spring 2000 was on a par with the largest stock market reductions over the past hundred years. At the end of 2001, the Stockholm Stock Exchange stood 17 per cent lower than at the start of the year, despite an upturn from September.

The krona continued to depreciate during 2001. From the start of the year and up to September, the exchange rate weakened approximately 13 per cent in terms of the TCW index. Following the terrorist attacks in the USA on 11 September, the krona depreciated further, which was partly connected to the considerable uncertainty then prevailing on the financial markets. During the final months of the year, however, the krona strengthened again as the situation on the financial markets stabilised. Nevertheless the krona finished the year 6 per cent weaker than it was at the beginning.

Diagram 5. SEK/EUR and SEK/USD.
Daily rates



Source: The Riksbank.

Subdued economic activity in Sweden

Economic activity in Sweden, as in many other countries, was subdued during 2001. The downturn continued throughout the year, although certain indicators showed a stabilisation towards the end of the year.

As a result of a decline in wealth and less optimistic expectations for the future, Swedish households increased their consumption at a slow rate. However, rising wages, a high level of employment and fiscal policy relief measures contributed to a counteraction of the weakening effects.

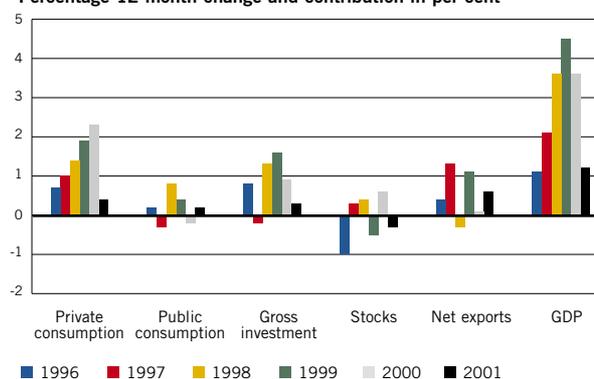
The weaker industrial activity led to a decline in capacity

utilisation, which caused investments to fall. During the course of the year the rate of increase in the construction sector, including construction of single-family dwellings, became stagnant.

Despite the receding economic activity, employment showed a strong development during the greater part of 2001. Open unemployment fell to 4.0 per cent of the labour force as an average for the whole year. However, the number of notices of redundancy increased, particularly during the second half of the year. As most companies nevertheless chose to retain their labour forces, productivity developed weakly over the year.

At the beginning of the year, three-year collective wage agreements were signed for the majority of the labour market. The centrally agreed wage rises are in general highest at the beginning of the agreement period. Wage increases for 2001 are estimated to have amounted to 4.0 per cent.

Diagram 6. GDP growth and contributions to GDP growth.
Percentage 12-month change and contribution in per cent



Note: Forecast for 2001 according to Inflation Report 4/2001.
Sources: Statistics Sweden and the Riksbank.

Despite the decline in economic activity and an expansive fiscal policy, the public sector's financial savings are estimated to have corresponded to 3.6 per cent of GDP in 2001. The result in the central government budget corresponded to a surplus of 1.8 per cent of GDP. Sweden was thus one of the countries within the EU with the strongest public finances.

Monetary policy considerations and decisions

In December 2000 the Executive Board of the Riksbank raised the repo rate by 0.25 percentage points to 4.0 per cent. This decision was based on an assumption that demand in the economy would grow more quickly than the economy could sustain in the long term, while there were risks connected with developments in wages, oil prices and



The Riksbank's management of the foreign exchange interventions

The Riksbank intervened on the foreign exchange market in June 2001 with the aim of influencing the exchange rate of the krona for the first time since the new legislation came into force in 1999. The interventions were made with a high degree of openness. For instance, the Riksbank announced publicly that the interventions had been made immediately following the first intervention. An assessment of the interventions was published in the autumn, along with minutes of the meetings where the Executive Board discussed the interventions. The assessment came to the following three conclusions:

1. Interventions are an instrument that will be used with great restraint, as long as Sweden has a floating exchange rate.
2. The Riksbank may intervene in the foreign exchange market again in future. Normally, interventions are made as part of monetary policy with the aim of contributing to safeguarding the inflation target. However, it is not possible to rule out the prospect of other situations arising where interventions are motivated.
3. The process for preparing and making decisions on interventions should be as open and clear as possible.

At the beginning of 2002 the Executive Board decided on rules and communication procedure for foreign exchange interventions.

the krona exchange rate. At the start of 2001, the Riksbank predicted relatively strong economic activity and good domestic growth. However, there was at the same time a clear risk of weaker international economic activity.

At the monetary policy meetings held by the Executive Board during the first half of 2001, the picture changed in two aspects in particular: domestic inflation rose markedly while international economic activity weakened. The Executive Board decided to leave the repo rate unchanged.

During May and at the beginning of June, the krona weakened further from already low levels, without any corresponding weakening for other comparable currencies. A continued weak exchange rate was assessed as the largest individual risk of the inflation target being exceeded, particularly as resource utilisation was high. The surprisingly rapid price increases in the spring also played a part. All in all, there was a risk that this would lead to inflation exceeding the Riksbank's targeted rate. There were also certain indications that inflation expectations were rising. The Executive Board therefore decided in mid-June to intervene on the foreign exchange market with the aim of strengthening the krona. At the monetary policy meeting held in early July the Executive Board also decided to raise the repo rate by 0.25 percentage points to 4.25 per cent. Altogether the measures taken probably contributed to a slowing down of the dramatic fall in the value of the krona. There was also a slight decline in inflation expectations during the summer.

During the latter part of the summer it became increasingly obvious that the Swedish economy had weakened, while the international economic downturn had become more profound. In mid-August stock markets began to fall again. The krona depreciated once more.

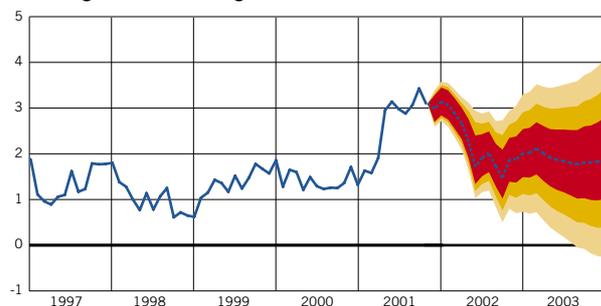
The terrorist attack on 11 September risked further subduing global demand and thereby inflationary trends in Sweden during the coming years. At an extraordinary meeting called on 17 September, the Executive Board assessed that there was a risk that inflation in two years' time would fall below the targeted level if the repo rate were retained unchanged. The Executive Board therefore decided to lower the repo rate by 0.5 percentage points to 3.75 per cent. At the same time, several other central banks lowered their steering rates.

The repo rate was left unchanged at the monetary policy meetings held in October and December. On both of these occasions the Executive Board assessed that inflation one to two years ahead would be close to or in line with the inflation target, even though the situation was characterised as

unusually difficult to assess. Contributory factors to the uncertain situation were the rapid weakening in economic activity and the unsettled global situation following the attacks in the USA.

At the meeting in December the risk scenario for inflation was assessed to be balanced. On the one hand, the Executive Board noted a significant risk of a lower inflation rate due to weaker economic activity internationally and in Sweden than assumed in the main scenario of the Riksbank's Inflation Report. On the other hand, there was a risk of higher inflation due to Swedish developments in inflation. Earlier in the year the inflation rate was surprisingly high, which aroused questions regarding the trade-off between the rate of price increase and resource utilisation in a broad sense. In addition, there were risks connected with the weaker krona and inflation expectations if the prevailing high inflation rate were to stick.

Diagram 7. UND1X with uncertainty interval according to Inflation Report no. 4/2001. Percentage 12-month change



Note: The uncertainty interval shows the interval in which underlying inflation, UND1X, is estimated to lie with 50, 75 and 90 per cent certainty respectively. The dotted line shows the forecast in the main scenario.
Sources: Statistics Sweden and the Riksbank.

To summarise, 2001 was a year with price increases exceeding the inflation target, despite a low growth rate – in December 2001 growth was assessed at 1.2 per cent. At the end of the year, monetary policy was assessed to have an expansive effect on the economy. Since 1993, growth in the economy has amounted on average to 3.0 per cent and the inflation rate to 1.4 per cent. This can be compared with the second half of the 1980s, when the corresponding growth figure was 2.5 per cent and the inflation rate 7.4 per cent a year.



Repo rate decisions 2001

1 February: Repo rate retained unchanged at 4 per cent.

26 March: Repo rate retained unchanged at 4 per cent.

26 April: Repo rate retained unchanged at 4 per cent.

30 May: Repo rate retained unchanged at 4 per cent.

5 July: Repo rate raised by 0.25 percentage points to 4.25 per cent. Deposit and lending rates raised from 3.25 and 4.75 respectively to 3.5 and 5 per cent respectively. Deputy Governors Villy Bergström, Lars Nyberg and Kristina Persson entered a reservation against the decision and proposed that the repo rate should be retained unchanged.

23 August: Repo rate retained unchanged at 4.25 per cent.

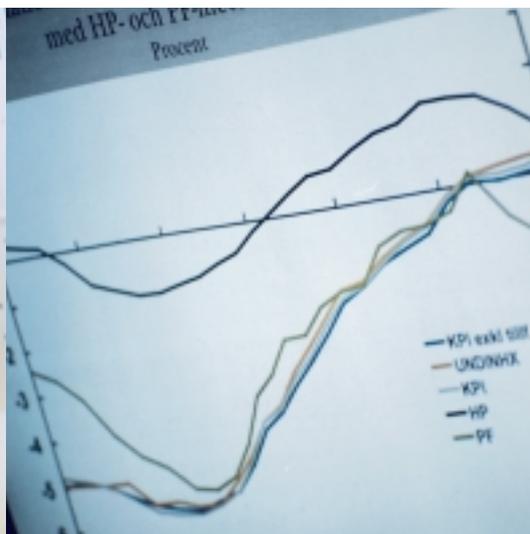
17 September: Repo rate lowered by 0.5 percentage points from 4.25 per cent to 3.75 per cent. Deposit and lending rates lowered from 3.5 and 5 per cent respectively to 3.0 and 4.5 per cent respectively.

15 October: Repo rate retained unchanged at 3.75 per cent.

4 December: Repo rate retained unchanged at 3.75 per cent. Deputy Governor Kristina Persson entered a reservation against the decision and proposed that the repo rate should be lowered by 0.25 percentage points.



Analyses and conclusions are presented. The Riksbank's independent position requires openness, which includes discussion of the motives behind its decisions. One stage in this openness is the press conferences held by the Riksbank on various occasions, e.g., when a new Financial Stability Report or Inflation Report is published. The Riksbank presents the bank's analyses and conclusions at these press conferences.



Swedish banks appear well equipped to face an economic downturn

Economic activity weakened during 2001. However, households' and companies' ability to pay remained high, while the banks were well equipped to meet loan losses in the event of an economic downturn. Financial stability would only be threatened in the event of a very widespread economic downturn. This is clear from the Financial Stability Reports published by the Riksbank over the year.

During 2001, economic activity gradually weakened. The slowdown followed on from an unusually strong and prolonged high level of activity, where the US economy had functioned as motor. Optimistic expectations that developments in the IT and telecommunications sectors would lead to high future growth had been an important driving force. The Swedish economy had benefited from these sectors playing a large part in the country's trade and industry and from the soaring share prices on the Swedish stock market. A high rate of investment and a strong demand in consumption, stimulated by an increase in wealth, had contributed to a substantial growth in GDP and an expansion in credit over several years.

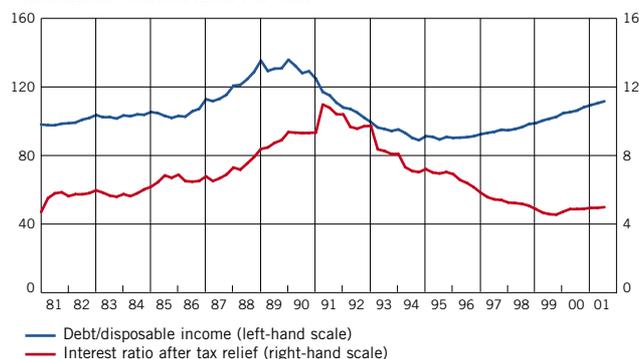
The analysis of financial stability over the year was aimed at assessing how vulnerable the Swedish banks would be if a much more profound and prolonged economic downturn than that described in the probable risk scenario were to occur. As a means of examining the bank's vulnerability to loan losses, an analysis was made of Swedish households' and companies' expected ability to pay, the diversification in the banks' loan portfolios and their capacity to maintain a sufficiently high earnings capacity to meet losses. There was also a general assessment of the banks' liquidity and credit risk management.

Good ability to pay among households and companies

Despite the fact that households had gradually increased their indebtedness over the past five years, this was not in itself assessed as a threat to stability in the banks. While the debts increased, the interest rate burden for households declined markedly as a result of falling interest rates. Households' net wealth had also risen over several years, which

was due to positive savings and increases in value of equity holdings, tenant-owner apartments and single-family dwellings. While the large fall in stock market prices from mid-2000 to mid-2001 had reduced households' wealth, it was higher than three years earlier. The fact that households took out loans against collateral in tenant-owner apartments and single-family dwellings further lowered the risk that these loans would lead to major losses for the banks. At the same time, households' equity holdings had been mortgaged to a very minor extent.

Diagram 8. Households' debts in relation to disposable income and households' interest ratio. Per cent



Note: The interest ratio shows household interest expenditure after tax deductions in relation to disposable income.

Sources: Statistics Sweden and the Riksbank.

The total assessment was therefore that even if the economic downturn were to prove more serious than the Riksbank had assumed, households' financial positions were so good to start with that there was little risk of large losses from loans to households. Unlike companies, households cannot be declared bankrupt, which means that the credit risks in lending to households are generally lower than in lending to companies. Moreover, it was assessed that fiscal policy relief would increase households' disposable incomes considerably during 2002.

Companies had also gradually increased their lending since the mid-1990s. A growing financing requirement for investment appeared to have driven up the demand for credit up to the year 2000. Despite the fact that investments decreased during 2001, companies continued to increase

Diagram 9. Companies' debt stock as a percentage of GDP. Per cent

Note: Given values for 2001 refer to the end of September.

Source: The Riksbank.

their borrowing over the year. Nevertheless, companies' debt stock was not considered a threat to financial stability. Data in financial statements from the end of 2000 indicated that companies had a good financial position when the slowdown in economic activity began; interest expense had declined as a percentage of companies' operating profits during the entire 1990s. Debts had also declined as a percentage of companies' total financing.

However, the slowdown in economic activity led to a slight increase in the number of bankruptcies during 2001, albeit from a low level. At the same time, developments on the financial markets showed that investors were expecting weaker growth. Credit risk premiums had increased companies' financing costs on the bond markets and the developments in share prices indicated that expectations of future profits had declined.

Diagram 10. Number of bankruptcies in the corporate sector and number of employees in companies going bankrupt. 12-month sliding average

Source: Statistics Sweden.

Although most companies appeared to have a good ability to pay, there was reason to assume that the number of bankruptcies could increase significantly in certain sectors if the economic downturn became more prolonged. It became clear as soon as activity slowed down at the beginning of the

year that the IT and telecommunications sector would be severely affected. Following the terrorist attack, the prospects for airline companies, tourism and insurance companies also deteriorated.

Operating profits for the property sector, a sector that played a prominent role in the bank crisis at the beginning of the 1990s and accounted for 15 per cent of the banks' lending in 2000, continued to improve during the first half of 2001. Certainly, it was assessed that a prolonged economic downturn could lead to a deterioration in the profitability of this sector if a decline in the demand for commercial property were to subdue rents. However, a good financial position prior to this, combined with the fact that there was no reason to assume that prices on mortgaged properties were higher than motivated, led to the conclusion that the property sector comprised no threat to the bank's stability.

Banks better equipped to face an economic downturn

The credit expansion among the major Swedish banks continued during 2001. A strong expansion in credit often precedes bank crises, but the Swedish banks' growth in lending was not assessed as remarkable enough to indicate greater risk taking by the banks. The economic slowdown had not yet had an impact in the form of loan losses at the end of 2001. Normally, the number of bankruptcies and loan losses does not rise until after a longer period of economic downturn. However, the banks' lending to sectors that were at risk of being particularly severely affected by the downturn was relatively small. Loans to the telecommunications sector amounted to slightly less than 2 per cent of the entire loan stock and loans to the airline sector, travel companies and insurance companies amounted to a total of just under 1.5 per cent. It was estimated that loan losses from these loans would not become serious unless a very large number of these companies were declared bankrupt.

It is generally difficult to assess the quality of the banks' loan portfolios on the basis of aggregated sector analysis, that is to say, the analysis of the total of all households, companies or sectors. A very important complement to this analysis is thus the evaluation of the risk management systems applied by the banks. According to the Riksbank's assessment, credit risk management had developed significantly during the 1990s. The total assessment was that the bank's loan portfolios had a higher quality at the end of 2001 than at the beginning of the 1990s.

It was estimated that the banks would be able to cover the losses that would nevertheless affect the banks if an eco-

conomic upturn were long delayed with their earnings. The banks' capital adequacy was also considered sufficient. Growth in profits slowed down somewhat during 2001, following several very strong years. This was mainly due to a decline in net commission revenue caused by falling prices and turnover on the stock market. Compared with the beginning of the 1990s, however, the earnings base had broadened, which reduced the banks' vulnerability in the event of an economic downturn.

All in all, the banking system was assessed to be much better equipped to meet a profound economic downturn than it was at the beginning of the 1990s.

Diagram 11. Profits before loan losses and loan losses in the major banks, aggregated over four quarters. SEK billion, 1991 prices



Sources: The banks' reports and the Riksbank.

The Riksbank's emergency preparedness tested

The terrorist attack on 11 September affected the USA's most important financial centre. This immediately gave rise to considerable uncertainty regarding the effects on the US payment system. There was an increase in demand for liquid and safe investments on the US daily lending market, which meant e.g. that many banks chose to invest their liquid assets in the US central bank, rather than lending surpluses to other banks. When it became clear that the IT operations at two banks in New York had collapsed and that the clearing and settlement operations were not functioning, uncertainty increased further. One of the banks was able to get its back-up system functioning, but the other bank had its back-up system on Manhattan, too. It was thus impossible to send on the money that had already been sent to these banks. The lack of liquidity led to a large rise in the shortest market rates. When the US central bank later the same day placed a facility of unlimited liquidity at the disposal of the banks, the liquidity problem declined.

As the Swedish banks implement extensive financial transactions every day on the international foreign ex-

change and securities markets, there was a risk that the Swedish banks would face problems on the American markets. The Riksbank therefore quickly activated its crisis organisation, which maintains a constant standby. The crisis organisation includes working routines and channels to other operators in the financial sector in Sweden and abroad. The Riksbank maintained close contacts with the banks, Finansinspektionen (the Swedish Financial Supervisory Authority) and the Ministry of Finance, as well as with other central banks and supervisory authorities in the Nordic countries and the EU, to enable rapid identification and remedy of problems.

The main factor that could have created problems in the Swedish banks in the short term was if large loans in US dollars had to be cashed in and a bank failed to find financing. Swedish banks could also have faced problems if an American counterparty could not repay a loan because of liquidity problems. To reduce the risk of liquidity problems on the US market spreading to the European banks, the European Central Bank, ECB, and the Federal Reserve announced on 13 September that they had agreed on a swap facility. This meant that the ECB could provide banks in the euro zone with liquidity in US dollars. The Executive Board of the Riksbank decided at an extraordinary meeting that the Riksbank would also place a facility amounting to a maximum of one billion US dollars at the disposal of the Swedish banks. However, the situation on the American daily lending market gradually normalised and the Swedish banks did not need to utilise this opportunity.

Safer banknotes introduced

On 1 October 2001 the Riksbank introduced new 100-krona and 500-krona banknotes. The main motif and the format of the banknotes remained unchanged, but the security standard was improved so that the notes were made more difficult to counterfeit. Another purpose was to make it easier for both the general public and professional cashiers to recognise genuine banknotes. An extensive information campaign preceded the introduction of the new banknotes.

The last time that Swedish banknotes were changed was in the early 1980s. Technical developments since then have meant that PCs and photocopiers can be more easily used to manufacture false banknotes. This, combined with increased use of vending machines, has increased the requirement for security. The new 100-krona and 500-krona banknotes are among the most secure in the world.

Global co-operation for stable financial markets

For the Riksbank to attain its operational objectives and fulfil its international obligations extensive international co-operation is required. Riksbank staff participate in more than 100 international groups and committees of a permanent and ad hoc nature. During 2001 the international work largely concerned measures to prevent financial crises.

During 2001, the financial crises in Turkey and Argentina provided a reminder once again of the importance of continuing to work on strengthening the international financial system and thereby improving the scope for preventing financial crises.

Many international organisations have been working intensively for some years now, from various starting points, on

means of trying to reduce the risk of future crises. This applies in particular to the International Monetary Fund, IMF.

Work related to crisis prevention was one of the dominant issues over the past year; in particular measures to promote the application of internationally accepted norms and standards. These were being produced by international bodies within different fields, such as banking supervision. Other important issues within the IMF during 2001 were combating money laundering and, following the terrorist attack on 11 September, how to fight the financing of terrorism. The IMF continued, within the framework of its surveillance of the international financial system, to assess how individual countries live up to these norms. In autumn 2001 the IMF for the first time began an assessment of the stability of the Swedish financial system.

Discussions in international forums on crisis management concerned, e.g., the balance between measures to promote stability in the short term and structural measures that have a more long-term effect. The question of private lenders' participation in crisis solutions also took on a new topicality, particularly with regard to the very large financial efforts made by the IMF in Turkey and Argentina.

The IMF's efforts to support the poorest countries through concessional loans and debt relief are financed via special contributions from the richer member countries. The purpose of these efforts is to fight against poverty. The Riksbank, like a number of other central banks, financed part of its country's contribution last year through a deposit with the IMF.

International co-operation

The Riksbank takes part in the work of several international organisations dealing with issues related to price stability and financial stability. The focus of the work within the International Monetary Fund, IMF, is on measures to prevent international financial crises.

The Riksbank's work within the EU is mainly focused on the Economic and Financial Committee, which advises the Ecofin Council on economic policy issues, and on the European System of Central Banks, ESCB. The Governor of the Riksbank is a member of the General Council of the European Central Bank, ECB, and the Riksbank is represented in more than 50 committees and working groups within the ESCB. However, as Sweden has not adopted the single currency, the Riksbank does not participate fully in the work of these committees.

In addition, the Riksbank participates in the monetary and financial co-operation between central banks in the Bank for International Settlements, BIS. Another important forum is the Group of Ten, G10, where the Riksbank and the Ministry of Finance represent Sweden.

The EU co-operation

Most of the EU co-operation that affects the Riksbank concerned the surveillance of economic policy in the member states, inter alia on the basis of the stability and convergence programmes. The Riksbank was, through its representation on the Economic and Financial Committee, EFC, involved in the work on the EU's broad economic policy guidelines and the implementation of the stability and growth pact. The implementation of the EU co-ordination framework in these areas, as based on the fundamental provisions of the Treaty

and other EU legislation, is still being further developed.

Through the Lisbon Strategy the EU intensified its surveillance of the reform work in its member states with regard to various structural policy measures to strengthen the Union's long-term competitiveness. For instance, during the Swedish government's EU presidency in the first half of 2001, important steps were taken to enable the adaptation of legislation on the securities markets to new conditions. Over the year, issues relating to the EU's future enlargement were also given greater priority on the EFC's agenda. Furthermore, the EU is now co-ordinating its positions on an increasing number of international issues, e.g. crisis management within the framework of the IMF.

The co-operation between authorities responsible for overseeing stability in different parts of the financial system is also being discussed within the EU, both in the EFC and the Banking Supervision Committee of the European System of Central Banks, ESCB.

The planning of the final changeover to the euro mainly concerned countries in the euro zone during 2001, but the Riksbank was able to follow the work through its regular participation in various committees. The Riksbank was also involved in the co-operation within the ESCB with regard to the joint payment system, TARGET, statistical reporting requirements and legal issues. The General Council of the ECB acts as a regular forum for discussing monetary policy objectives and important trends in economic development.

The Riksbank's co-operation within the G10 takes several different forms. For instance, various studies on international structural issues are being discussed together with the ministries of finance in the G10 countries. The Riksbank was given special responsibility for co-ordinating a study concerning measures to reduce the risk of negative effects on economic growth from asset price developments. Within the framework of co-operation at the Bank for International Settlements, BIS, central banks and banking supervisory authorities further developed new proposals for capital adequacy rules for banks. These are expected to come into force during 2005.



Contingency planning for a possible full participation in the EMU

When the Riksdag (Swedish parliament) decided in 1997 that Sweden would not participate fully in the monetary union from its start on 1 January 1999, it also decided that the greatest possible freedom of action should be maintained with regard to a possible future participation through technical and practical preparations. The Riksbank and the financial sector in Sweden therefore work on such preparations for a possible EMU entry at a later date. These preparations are co-ordinated in a consultation group.

An account of this work is regularly provided in reports on the ongoing preparations in the financial sector. The most recent report, *The euro in the financial sector – banknotes and coins – progress report 7*, was published in September 2001. This report indicated that the financial sector, including the Riksbank, needs a total of approximately 18 months to prepare for entry and a further 12 months or so thereafter before an exchange of banknotes and coins can begin. The internal preparations at the Riksbank focus on measures that need to be complete on entry and/or require a long time to implement. The Riksbank's internal preparations are reported to the Executive Board every six months.

More efficient production of statistics

The Riksbank produces financial market statistics, balance of payments statistics and statistics on turnover in the money and bond market and foreign exchange market. During 2001 the Riksbank has taken a decision that will lead to a considerable improvement in efficiency in this field, partly by transferring some of the statistical compilation to Statistics Sweden.

The statistics produced by the Riksbank provide a basis for analysing the development of the financial markets. This includes the impact of monetary policy, the stability of the payment system and structural developments in the financial markets.

Statistics are also important to external users in Sweden and abroad, who follow and assess developments. Statistics Sweden also uses the Riksbank's statistics; the balance of payments comprises an important basis for the National Accounts and the financial market statistics are used for compiling the financial accounts.

Statistical compilation to be transferred to Statistics Sweden

During 2001 the Riksbank made decisions which will involve substantial changes in the statistical operations over the coming years. The purpose is to concentrate the role of the Riksbank on its core business and to improve production, rendering it more effective.

In the financial market field, the collection, compilation and processing of statistics will be carried out by Statistics Sweden, commissioned by the Riksbank, with effect from April 2003. However, the Riksbank will retain responsibility for the statistics. The bank's operations will be aimed at participation in international work and specifying the level of ambition of the statistics. The reason for this is that the Riksbank's own use of the statistics is limited, while other users' requirements, in particular those of the ECB, have increased considerably.

In the balance of payments field, the system of reporting cross-border payments will be abolished in January 2003. From that date, the balance of payments statistics will instead be based on sample surveys. The reason for this

International requirements

The European Central Bank, ECB, and international organisations such as the International Monetary Fund, IMF, are important users that make requirements of the statistics for which the Riksbank is responsible. In addition, the IMF is the primary body for setting standards in these areas of statistics.

The changes in the production of statistics that have been decided will mean that the preparations for a possible future Swedish membership of the EMU will be made by both the Riksbank and Statistics Sweden.

The IMF has established a special standard for statistics; *Special Data Dissemination Standard, SDDS*. Sweden, in common with around 50 other countries, has adopted this standard and thereby undertaken to produce the economic statistics prescribed in the standard. The Riksbank co-ordinates the work in Sweden and the statistics are published regularly on the bank's website.

change is that the payment reporting provides an increasingly uncertain base for the balance of payments statistics. Some of the statistics will be collected by Statistics Sweden, particularly those that form a base for the balance on the current account. The Riksbank will retain responsibility for the balance of payments, handle publication of the statistics and also collect data for the financial balance.

Dialogue with researchers from all over the world



The Riksbank pursues research on issues relevant to the bank's operations. This applies in particular to methods aimed at further developing the analysis work regarding price stability and financial stability. The Riksbank hosted two international seminars during 2001.

The number of conferences and seminars in the world of research is increasing. This is partly due to an increase in the number of researchers and thereby the volume of research. Another reason is probably that the need to meet and discuss becomes greater as the supply of information grows. The Riksbank takes an active part in this dialogue and during the year a large number of guest researchers have visited the bank to present their research. The Riksbank has also hosted two international seminars. In January the subject was a potential conflict between the two parallel objectives of price stability and a safe and efficient payment system. In October a large conference of internationally renowned researchers was organised to discuss empirical analysis of inflation; in particular monetary policy effects on inflation.

The Riksbank's price stability objective is expressed as a quantitative target for the annual inflation rate. The Riksbank's other objective, a safe and efficient payment system, often termed financial stability, is less easy to quantify and encompasses a number of essential questions. With the aim of discussing some of these questions, the Riksbank hosted a one-day workshop in January, with participants from Eu-

ropean central banks and banking supervisory authorities. The seminar was organised around four discussion leaders: Arturo Estrella from the Federal Reserve Bank of New York, Philip Lowe from the Bank for International Settlements, BIS, Arnoud Boot from the University of Amsterdam and Peter Englund from the Stockholm School of Economics. The two last-mentioned are academic advisers to the Riksbank. The following questions were discussed:

- How should regulations for banks be designed to best prevent crises in the payment system?
- How can macroeconomic developments lead to increased risks of financial instability?
- What means do the authorities have at their disposal to correct imbalances that have arisen in the financial markets and when and how should these means be used?

The workshop is documented in the Riksbank's quarterly review, *Sveriges Riksbank Economic Review*, no. 2, 2001.

In October the Riksbank organised an international research conference attended by around 50 participants from both central banks and the academic world. The conference focused on a relatively narrow theme; the use of VAR models¹ for empirical analysis of inflation, specifically the possible effects of monetary policy. The following issues were discussed:

- How long does it take for a change in the central bank's instrumental rate to have maximum impact on the economy?
- How large are the effects that can be expected from a given change in the instrumental rate?

These questions are fundamental to the shaping of monetary policy. Although the conclusion of the conference had to be that research is unable to provide definitive or unambiguous answers, VAR models appear to be a fruitful means of increasing knowledge in this field. A total of twelve papers were presented at the conference. These are available on the Riksbank's website.

1. VAR stands for Vector Auto Regressive and describes a type of model that can be used, e.g., for predicting the growth of the economy. This model consists of a system of equations where each variable has its own equation. Some of the most common variables are GDP, unemployment, interest rates, energy prices and the consumer price index.

AB Tumba Bruk

At the end of 2001 the Riksbank signed an agreement with the American company Crane & Co regarding the sale of AB Tumba Bruk's banknote printing works and paper mill. The agreement entails Crane & Co taking over the management and running of the company with effect from 1 January 2002. At the end of the year, the Riksbank also signed an agreement with the Finnish state-owned mint Rahapaja Oy regarding the sale of another part of Tumba Bruk, the Swedish Mint in Eskilstuna. This agreement also came into force as of 1 January 2002. The sales mark the end of an era – Tumba Bruk has been wholly owned by the Riksbank and manufactured banknote paper since its start in 1755.

The sales of these companies enable the Riksbank to go one stage further in its work on concentrating on its core business, while the companies are able to be further developed by new, industrially-oriented owners. Crane & Co is a family-owned company with its registered office in Massachusetts, USA. The company has supplied banknote paper to the US Treasury's Bureau of Engraving and Printing, which prints the US dollar notes, for more than 100 years. Tumba Bruk's banknote printing works and paper mill will change their name to Crane AB. The Swedish Mint will retain its name (in Swedish – "Myntverket"). The mill environment at Tumba, which comprises a valuable cultural heritage, has been separated from Tumba Bruk and will be conserved. Preparations are being made for the donation of the mill area to the National Property Board.

As part of the restructuring and sale of Tumba Bruk, the Riksbank acquired two companies in December 2001. Eskilstuna Penningsmedja AB is used merely as a stage in the sale of the Swedish Mint. Tumba Kulturfastigheter AB has the task of taking over the cultural heritage buildings, land and equipment at Tumba during a transition period before the planned donation.

2001 in brief

The year 2001 involved several large deliveries for Tumba Bruk, including the production of new 100-krona and 500-krona banknotes. The quality requirements for these banknotes are much higher than before. All of the banknotes



have to be individually checked before they are delivered. The printing works has therefore installed a checking system, which inspects each banknote individually.

In the first quarter, the order intake with regard to banknote paper was low. This situation improved and banknote paper was delivered to around ten countries. Two large investments were put into operation: a foiling and screen printing plant and a cutting and packing line.

On 1 June 2001 Sweden updated its one-krona and ten-krona coins. The new coins differ slightly in appearance from the earlier versions, mainly through a new portrait of King Carl XVI Gustaf. The coins are minted by the Swedish Mint in Eskilstuna. The Swedish Mint has also produced commemorative coins e.g. to mark the one hundredth anniversary of the Nobel Prizes.



Lennart Bergstedt,
MD

Tumba Bruk in brief

- Tumba Bruk manufactures cotton-based banknote and security paper, banknotes, coins and medals.
- The company has been wholly owned by the Riksbank and manufactured banknote paper since it was founded in 1755.
- In 2001 the Riksbank signed an agreement with the American company Crane & Co regarding the sale of Tumba Bruk's banknote printing works and paper mill, which will change their name to Crane AB. In 2001 the Riksbank also signed an agreement with the Finnish state-owned mint Rahapaja Oy regarding the sale of the Swedish Mint in Eskilstuna.



Pengar i Sverige AB

The main task for Pengar i Sverige AB is to take responsibility, on behalf of the Riksbank, for distribution, storage and checking authenticity of banknotes and coins. In addition, the company shall contribute to creating an efficient infrastructure for cash management in Sweden. Operations shall be pursued on businesslike terms. The company was established on 1 June 1999, whereby the majority of the operational management of banknotes and coins was transferred from the Riksbank. Pengar i Sverige AB is a wholly-owned subsidiary of the Riksbank, but the aim is to sell the company during 2002.

Operations are pursued through seven offices and eight service points/ATM lobbies throughout Sweden. The seven offices form an infrastructure for cash management. The main tasks currently carried out consist of receiving and supplying banknotes and coins, authenticity checks, counting daily takings, emptying, checking and filling up cash dispensers, and security transports.

2001 in brief

The company met an increased demand for its services during 2001.

Production processes at all offices and service points have been reviewed and production equipment has been modernised to make operations more efficient. A decision has been taken to establish a service point at Tumba, mainly for handling coins, and to open a service point in Örebro, both with the aim of improving logistics. It is estimated that these new service points will come into operation during the first quarter of 2002. A cash counting centre started up in Umeå in December 2001.

In October 2001 the company moved its Stockholm operations to a new office in Akalla, north of Stockholm. The new premises offer better logistics and are equipped with new machines to cope with the company's expansion.

Pengar i Sverige has formed its own company to handle its transport activities, Pengar i Sverige Värdetransport AB, in order to offer customers overall solutions. This new company has acquired Örnsköldsviks bevakningstjänst AB and the operations within Panaxia Security. Following these ac-



quisitions, Pengar i Sverige Värdetransport AB now has approximately 60 security transport vehicles and 80 employees.

A new model for receiving and supplying cash was implemented in October 2001. This was introduced to make cash management more efficient and safer for all parties involved.



Gunnar Malm,
MD

Pengar i Sverige in brief

- Pengar i Sverige is a wholly-owned subsidiary of Sveriges Riksbank.
- It has the task of creating an efficient infrastructure for cash management in Sweden and of conducting the cash management operations on businesslike terms.
- Pengar i Sverige's operations are conducted through seven offices and eight service points/ATM lobbies evenly distributed throughout Sweden.
- The company has its own transport operations, Pengar i Sverige Värdetransport AB.
- The company's main tasks are
 - receiving and supplying banknotes and coins
 - value dating and checking authenticity
 - selling banknotes and coins
 - counting daily takings
 - emptying, checking and reloading ATMs
 - security transports.



Trio awarded prize for analysis of asymmetric information

Sveriges Riksbank's Prize in Economic Sciences in memory of Alfred Nobel was awarded in 2001 to George A. Akerlof, A. Michael Spence and Joseph E. Stiglitz for their analysis of markets with asymmetric information.

Markets with asymmetric information are those where actors on one side of the market have much better information than actors on the other side, e.g., borrowers know more than lenders about their repayment prospects. This year's laureates laid the foundation for a general theory of markets with asymmetric information during the 1970s. The applications for this theory range from traditional agricultural markets to modern financial markets.

George Akerlof, University of California at Berkeley, USA, has demonstrated how a market where sellers have more information than buyers about product quality can contract into an adverse selection of low-quality products. Akerlof has also pointed out how asymmetric information among borrowers and lenders may explain skyhigh borrowing rates on local Third World markets. Michael Spence, Stanford University, USA, has identified an important form of adjustment by individual market participants, where the better informed take costly actions in an attempt to improve on their market outcome by credibly transmitting information to the poorly informed. Spence showed when such signalling will actually work. Subsequent research has suggested many other applications, e.g. how firms may use dividends to signal their profitability to agents in the stock market. Joseph Stiglitz, Columbia University, USA, clarified the opposite type of market adjustment, where poorly informed agents extract information from the better informed, such as the screening performed by insurance companies dividing customers into risk classes by offering a menu of contracts, where higher deductibles can be exchanged for significantly lower premiums. Stiglitz has shown that asymmetric information can provide the key to understanding many observed market phenomena, including unemployment.

In connection with the 100th anniversary of the Nobel Prizes, the Riksbank organised a panel debate with this year's laureate, Professor Joseph E. Stiglitz and former



George A. Akerlof, Joseph E. Stiglitz and A. Michael Spence.

prizewinners Professor Milton Friedman, Professor Robert M. Solow and Professor Paul A. Samuelson. Professor Janet L. Yellen also took part in the debate on what lessons economic policy decision-makers could learn from developments in national economic research.

Sveriges Riksbank's Prize in Economic Sciences was established in connection with the Riksbank's 300th anniversary in 1968. It 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 prizewinner(s) according to the same principles as for the Nobel Prizes. The prize amount is also the same as for the Nobel Prize, SEK 10 million, and is paid by the Riksbank.

Previous prizewinners

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

Submissions

The following submissions regarding matters referred to the Riksbank for comment were presented by the Executive Board during 2001. Unless otherwise stated, the decision has been taken by Deputy Governor Villy Bergström, who is the Executive Board member responsible for preparing submissions.

Ministry of Finance

25-01-2001

Submission regarding the report Public administration of banks in distress (SOU 2000:66). A decision on this matter was taken by the Executive Board of the Riksbank.

19-02-2001

Submission regarding ministry memorandum A new law on income tax returns and statements of income (Ds 2000:70).

09-03-2001

Submission regarding the memorandum Economic steering for efficiency and transparency (Ds 2000:63). A decision on this matter was taken by the Executive Board of the Riksbank.

26-04-2001

Submission regarding the Ministry of Finance's memorandum containing a proposal for a regulation limiting property tax through tax reduction (Fi2001/1123).

02-05-2001

Submission regarding the Ministry of Finance's memorandum on the right of savings banks and co-operative banks to pursue operations abroad and on the extension of the transition period for savings associations and some financing companies (Fi2001/1619).

12-07-2001

Submission regarding the memorandum Act on the issuing of electronic money (Fi2001/2166).

05-10-2001

Submission regarding the memorandum Bonds used as collateral (Ds 2001:38). A decision on this matter was taken by the Executive Board of the Riksbank.

18-10-2001

Submission regarding the Swedish National Debt Office's proposal for guidelines for the management of the central government debt. A decision on this matter was taken by the Executive Board of the Riksbank.

Finansinspektionen

(the Swedish Financial Supervisory Authority)

04-05-2001

Submission regarding a proposal for instructions and general guidelines on securitisation (FI Dnr 01-3030-200).

11-05-2001

Submission regarding an application for a banking charter from ICA Kundkort AB. A decision on this matter was taken by the Executive Board of the Riksbank.

07-09-2001

Submission regarding Finansinspektionen's proposal for new instructions on reporting of interim and annual account data.

07-11-2001

Submission regarding a proposal for a change in Finansinspektionen's instructions and general guidelines for insurance companies' accounting.

22-11-2001

Submission regarding a proposal for new instructions on reporting for mutual fund companies and securities funds, etc.

10-12-2001

Submission regarding draft, linguistically-reworked instructions and general guidelines on annual reports of credit institutions and securities trading companies.

10-12-2001

Submission regarding an application from the Stockholm Stock Exchange for approval of a decision to grant exemption from collateral requirements in the clearing organisation activities.

Ministry of Justice

23-04-2001

Submission regarding a memorandum The Swedish National Audit Office – changes in the constitution (Ds 2001:11).

23-05-2001

Submission regarding the interim report The need for economic statistics (SOU 2001:34) from the Committee on revision of economic statistics.

12-12-2001

Submission regarding the Ministry of Justice's memorandum Measures against late payments (Ds 2001:56). A decision on this matter was taken by the Executive Board of the Riksbank.

Ministry of Industry, Employment and Communications

08-02-2001

Submission regarding the PTS report Conditions for establishing a special function for dealing with IT incidents.

27-03-2001

Submission regarding the final report Individual competence preservation – starting from 2002 (SOU 2000:119).

12-07-2001

Submission regarding the Ministry of Industry, Employment and Communications' memorandum Basic cash services (N2001/6184/ITFoU).

The Riksdag/The Committee

on the Constitution

26-04-2001

Submission regarding the Riksdag Committee's proposal The Riksdag faces the 21st century (2000/01:RS1). A decision on this matter was taken by the Executive Board of the Riksbank.

Statistics Sweden

14-05-2001

Submission regarding the paper Regarding the need for an obligation to provide information in the statistics on job vacancies.

23-08-2001

Submission regarding Statistics Sweden's proposal for quarterly reporting of the securities trading companies' assets and liabilities.

Ministry for Foreign Affairs

15-02-2001

Submission regarding the report Developing the co-operation with central and eastern Europe (SOU 2000:122).

28-06-2001

Submission regarding the Ministry for Foreign Affairs' memorandum The Treaty of Nice, the EU intergovernmental conference 2000 (dnr UD2001/794/ERS).

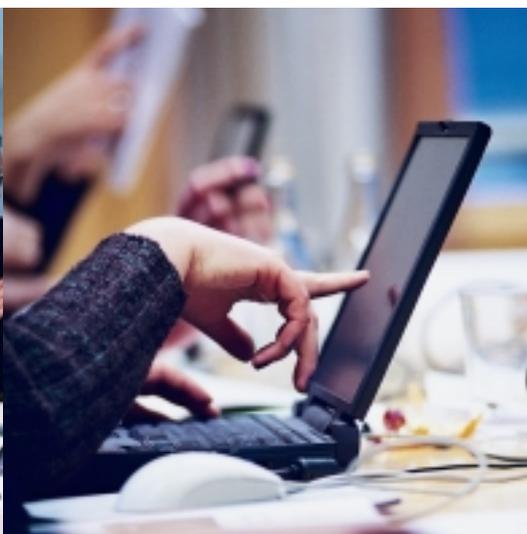
12-12-2001

Submission regarding the European Commission's white paper on forms of government in the EU (UD01/1476/EU).

These submissions are only available in Swedish.



The Riksbank conveys knowledge. The Riksbank organises seminars and training courses to disseminate knowledge on how monetary policy works in practice. Employees of the bank give lectures to university and college students and the course *The Riksbank's role in society*, which is aimed at upper-secondary school teachers, is held on a couple of occasions every year. The Riksbank also provides training for bank staff in the RIX system.



From analysis and forecasts to interest rate decisions

The Riksbank's objective is price stability. The work on inflation forecasting is to investigate whether inflation will deviate from the target of 2 per cent. This section describes the analysis and forecasting, how interest rate decisions are prepared and what happens once a decision has been taken.

The purpose of the monetary policy analysis work is to assess whether economic developments need to be influenced by changes in interest rates or other monetary policy decisions in order to attain the inflation target. As monetary policy measures achieve full impact with a time lag of one to two years, monetary policy is usually based on a forecast of inflationary trends during this time horizon. Monetary policy can be describe in simple terms thus: if the Riksbank's inflation forecast for one to two years ahead indicates that inflation will exceed the target level, the repo rate is usually raised and if the forecast shows inflation will fall below the target, the repo rate is usually lowered.

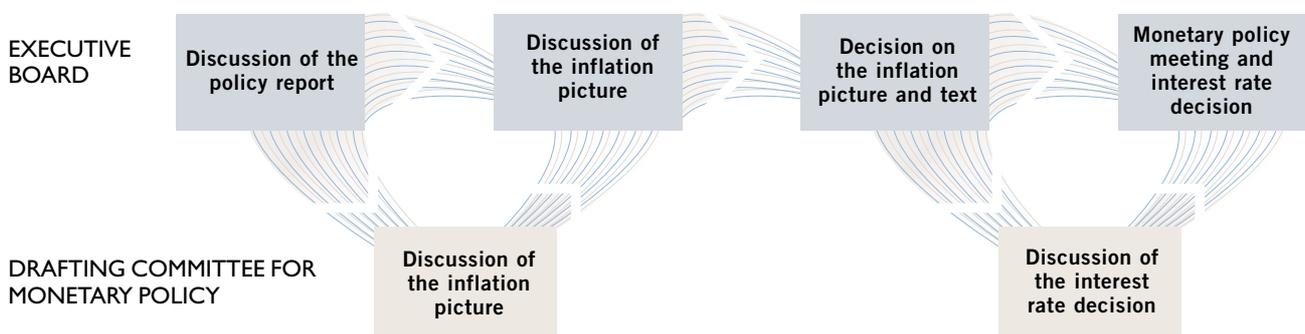
Monetary policy is discussed at meetings of the Executive Board that are timetabled in advance. At these meetings, an assessment of the economic situation in Sweden and other countries is presented. A total assessment is presented four times a year, when an Inflation Report is pub-

lished. At the other monetary policy meetings, the decision-making process is based on an update of the previous forecast. In addition, there is a preparedness to work out background reports in the event of extraordinary meetings being called. This enabled information to be produced for the extraordinary meeting called in mid-September 2001, following the terrorist attacks in the USA.

The process of producing an Inflation Report begins approximately six weeks before the report is to be presented. This usually involves a discussion of the issues that may appear particularly relevant to the assessment. The discussions take place both at Executive Board meetings and within the drafting committee for monetary policy, which consists of senior managers and advisors to the Executive Board. The drafting committee for monetary policy is headed by the Executive Board member with responsibility for preparing monetary policy matters. Following the discussions, the Monetary Policy Department independently produces an internal policy report containing a total inflation assessment, which is based on the assumption that the repo rate will remain unchanged.

During the two weeks immediately preceding publication of the Inflation Report, the Executive Board takes a more active part in the work. The internal policy report is

Figure 1. The process for producing an Inflation Report



transformed into an Inflation Report. The report is discussed on a couple of occasions by the drafting committee for monetary policy and the Executive Board. These discussions concern both the assessment of inflation and the overall issues to be considered in the report. The day before the Inflation Report is published, the Executive Board gathers for a monetary policy meeting. At this meeting the conclusions reached by the drafting committee for monetary policy, based on the information available, are reported. The Executive Board then adopts the Inflation Report and decides whether or not the repo rate should be altered.

The Riksbank collects the background information for its decision-making from, amongst others, Statistics Sweden, the National Institute for Economic Research and various international bodies. The information picked up by the bank's management and officers during travel within Sweden and abroad provides a useful complement, as do the Riksbank's own statistics on the balance of payments and the credit markets.

The inflation forecast is based on a total survey of the economy, as most economic changes affect price trends. The knowledge of sector experts plays an important role in the assessment, as do the bank's various econometric models. A couple of larger econometric models² have recently been put into use in the forecast work.

The development of new methods in the analysis work is stimulated by contacts with internal and external researchers as well as with other central banks and international organisations.

Open and clear communication

An important part of the monetary policy process is that the bank's analyses and conclusions are presented in a clear, correct and pedagogical manner to various interested parties. Respect for and confidence in the work of the Riksbank is largely based on the bank following a clear intellectual framework, observing the explicit rules of conduct and practising open and clear communication.

Decisions on the repo rate are published in a press release on the day following the Executive Board's monetary policy meetings. The decision is simultaneously published on the bank's website, at the bank's entrance, and distributed via fax. When an Inflation Report is published and when the

Executive Board decides to make a change in the interest rate, a press conference is held.

Minutes are taken at the Executive Board's monetary policy meetings and these are published with a time lag of approximately two weeks. The minutes, which contain a detailed account of the monetary policy discussion, arouse great interest in the financial markets. They also comprise a basis for the General Council of the Riksbank's evaluation of how the members of the Executive Board are fulfilling their set task. If a member of the Board has entered a reservation against the majority decision, this is described in the minutes.

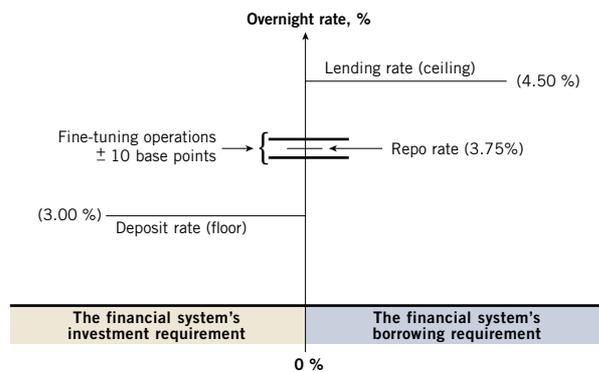
In addition to the printed information in the Inflation Report, the minutes of meetings and the press releases, the members of the Executive Board hold a large number of speeches with the aim of giving their views on economic developments and explaining the position taken by the Riksbank. Officers of the bank also present the Inflation Reports to external groups, such as banks and professional organisations.

Twice a year the publication of the Inflation Report is coordinated with a public hearing of the Governor of the Riksbank in parliament, by the Riksdag Finance Committee.

Steering interest rates

When the Executive Board of the Riksbank has decided what level repo rate shall apply, the implementation of the decision begins. The Riksbank governs the market's shortest rate, the overnight rate, through various financial instruments. One of these instruments involves the Riksbank offering the banks the opportunity to deposit and borrow at predetermined rates overnight, what are known as the deposit and lending rates. These are always 75 base points (0.75 percentage points) below and above the repo rate respectively. As the banks can always deposit money with or borrow from the Riksbank with one day's duration at known interest rates, there is no reason for the banks to deposit at a lower rate than they can get from the Riksbank (the Riksbank's deposit rate) or to borrow at a higher rate than the Riksbank's lending rate. In other words, a floor and a ceiling have been created (what is known as the interest rate corridor) for the market's overnight rate. Once a week the Riksbank signals, through what is known as its monetary policy repo transaction, where the overnight rate shall be situated within the corridor. To stabilise the overnight rate, the Riksbank executes daily fine tuning operations, dependent on the banks' investment and borrowing requirements during the day.

2. During 2001 the Riksbank utilised three large models RIXMOD, BASMOD and Nigem, as well as some smaller models, in its forecast work.

Figure 2. The Riksbank's steering of the overnight rate.

Note: The example refers to a repo rate of 3.75 per cent, which was the level at the end of 2001.

The Riksbank thus controls in practice the market's overnight rate. The short market rates (up to approximately one year) are strongly influenced by the expected development in the overnight rate, in other words, what the Riksbank will do with the repo rate. Interest rates with a longer duration, e.g. ten years, are mainly influenced by confidence in monetary policy, i.e. expectations of future inflation. The

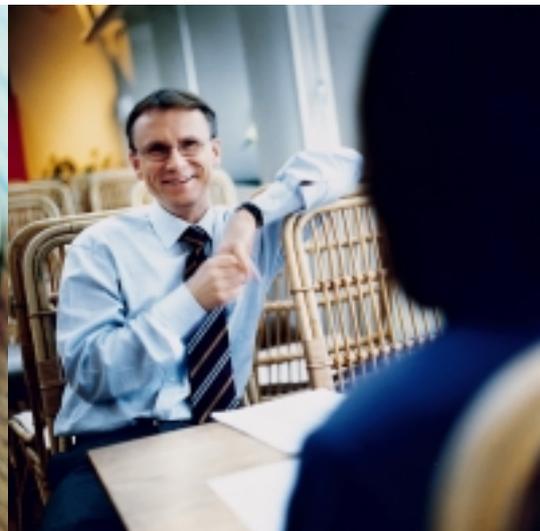
interest rates in turn affect economic activity and, finally, inflation.

Effects on households' and companies' interest rates

A decision to change the repo rate seldom comes as a surprise to the financial markets. The operators try to predict what decision the Executive Board will make, while the Riksbank has the explicit aim of avoiding surprises as far as possible. Clear and distinct information on the bases on which monetary policy decisions are made enables operators in the markets to form their own opinion of the direction for monetary policy in the light of new information on, e.g., economic activity. One result of this is that interest rates on the financial markets are often adapted to a change in the repo rate before this change has been determined. The effect of a change in the repo rate on floating interest rates applied by banks and mortgage institutions occurs rather more slowly. The mortgage institutions do adjust their interest rates relatively quickly, but the banks often wait a month or more. One reason for this is that banks and mortgage institutions also take into account competitive conditions in their respective markets.



Mentor programme for individual development. Staff at the Riksbank have the opportunity to participate in a mentor programme. This involves bank employees having regular meetings with mentors from other authorities or private companies. In this way, the individual employee can develop at the same time as new ideas and outlooks are brought to the Riksbank.



The Riksbank identifies potential risks in the payment system

One of the Riksbank's objectives is a safe and efficient payment system. This section describes how the Riksbank works on analysing and identifying any vulnerable areas in the infrastructure and the banking system to enable it to prevent a crisis arising.

All trade in goods and services assumes that payments can be made quickly and efficiently. It is therefore of great importance to society that the value of money is safeguarded and the payment system functions safely.

The Riksbank's operational responsibility

Banknotes and coins in krona are legal tender in Sweden and the Riksbank has a monopoly according to law on issuing them. The General Council of the Riksbank determines the design of the banknotes and coins and security is an important aspect. The distribution of banknotes and coins to the general public is mainly via the banks. Printing of banknotes, minting of coins and the distribution of banknotes and coins to banks and post offices is performed by the Riksbank's subsidiaries or independent companies commissioned by the Riksbank. The Riksbank monitors that these

tasks are performed in a manner that is safe and efficient.

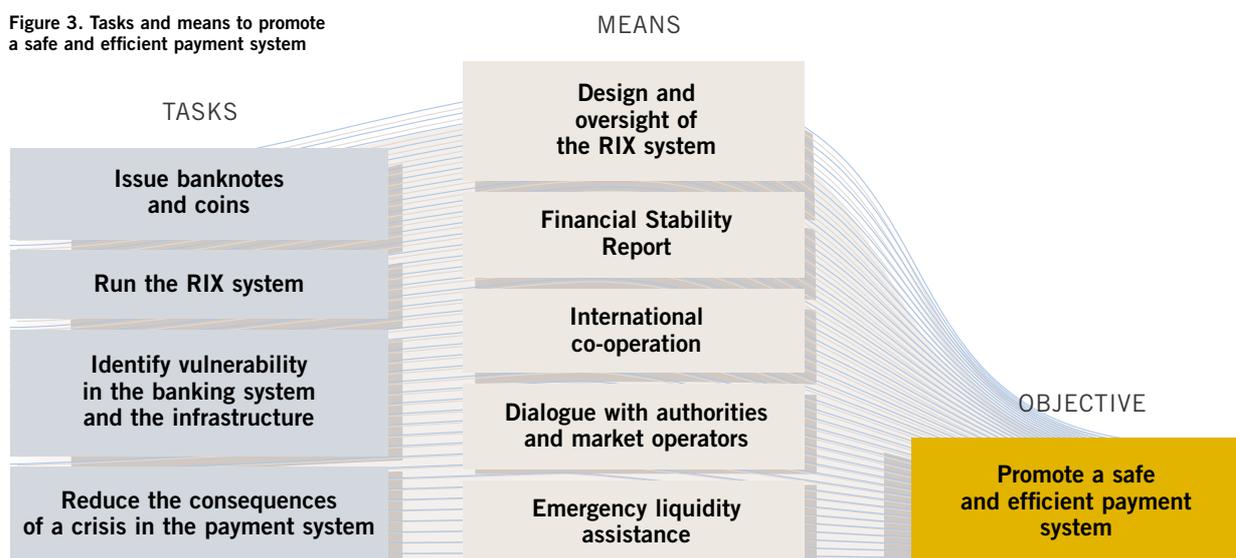
The majority of payments are no longer made in cash, but through electronic transactions via accounts. The Riksbank's operational responsibility is limited here to the management of the system for inter-bank payments, known as the RIX system.

In addition to its operational tasks, the Riksbank also oversees the payment system. The purpose of this is to identify factors that might lead to a crisis that could seriously threaten the payment system and to influence banks, other operators in the financial markets and authorities to take measures to reduce or eliminate systemic risks.

The Riksbank oversees the infrastructure

Routines and the technical design of the infrastructure transferring payments in krona and other currencies enable the flows of financial assets between different institutions and markets. Deficiencies in the routines or in the technical design can lead to inefficiency that is costly to society and perhaps even to systemic crises. Usually the markets function quite efficiently without intervention from the authorities, but in certain situations the operators in the market choose

Figure 3. Tasks and means to promote a safe and efficient payment system



solutions that do not involve what is best for society. The oversight work is therefore aimed at surveying and analysing possible sources of systemic risks and efficiency losses.

Oversight of the banks

The banks have a very important task in society, partly as mediators of payments. A crisis in one sufficiently large bank could cause substantial problems for the entire Swedish payment system. This could be said to threaten financial stability. An important part of the Riksbank's oversight work therefore consists of regularly assessing the risks in the large Swedish banks' operations.

A necessary condition for a bank to be able to function as payment mediator is that it can always implement payments to other banks. The bank must also be prepared to meet the general public's need for cash when making withdrawals from their deposit accounts. A bank's operations often lead to a deficit arising in the payment flows, as the bank's assets, e.g., in the form of loans to the general public, have a longer fixed term than the bank's liabilities. The liabilities largely consist of deposits from the general public that can immediately be used as a means of payment when the bank customer so requires. If a large number of customers transfer money from their deposit accounts to accounts in other banks at the same time, the bank must immediately find an-

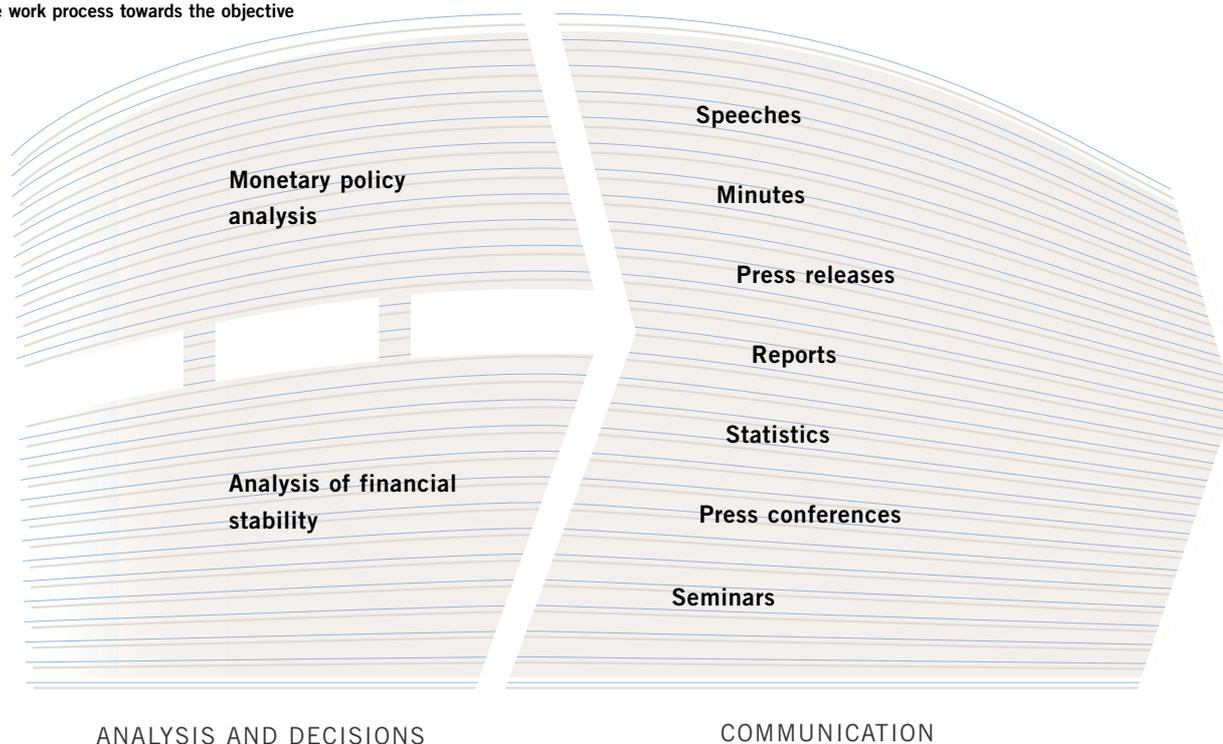
other form of financing, either via loans on the private market or loans from the Riksbank. Borrowing from the Riksbank, through either intra-day or overnight loans, requires collateral in the form of eligible assets, such as treasury bonds. Borrowing on the market often requires no collateral, but the bank must have a good credit rating.

Financial stability can be threatened for many reasons. The Riksbank's analysis and assessment of the risks in the Swedish banks therefore consists of different elements.

A few examples are:

- Swedish households and companies are important borrower groups and thus could cause large loan losses for the banks. There are therefore regular assessments made of households' and companies' ability to pay and their financial situation.
- The banks borrow large amounts from one another, which means that a crisis in one bank would risk spreading to other banks. The Riksbank therefore monitors the liquidity and credit risks in these counterparty exposures regularly.
- Deficiencies in the liquidity and credit risk systems applied by the banks would increase the risk of bank crises. The Riksbank therefore endeavours to increase knowledge of the systems applied by the banks and to assess the capacity of these systems to reduce the risk of bank crises.

Figure 4. The work process towards the objective



- Normal fluctuations in economic activity do not usually cause any problems for the banks. The main threat to financial stability comes from unexpectedly rapid and prolonged declines in economic activity. The Riksbank's analysis is therefore focused on assessing the sensitivity of the banking system to, e.g., an unexpected economic downturn or a sudden fall in asset prices.
- If the banks' earning capacity deteriorates as a result of structural changes in the markets, their capacity to bear losses declines. This could lead to the banks increasing their risk taking and is why the Riksbank assesses the long-term development of the banks' earning capacity.

Means to prevent a system crisis

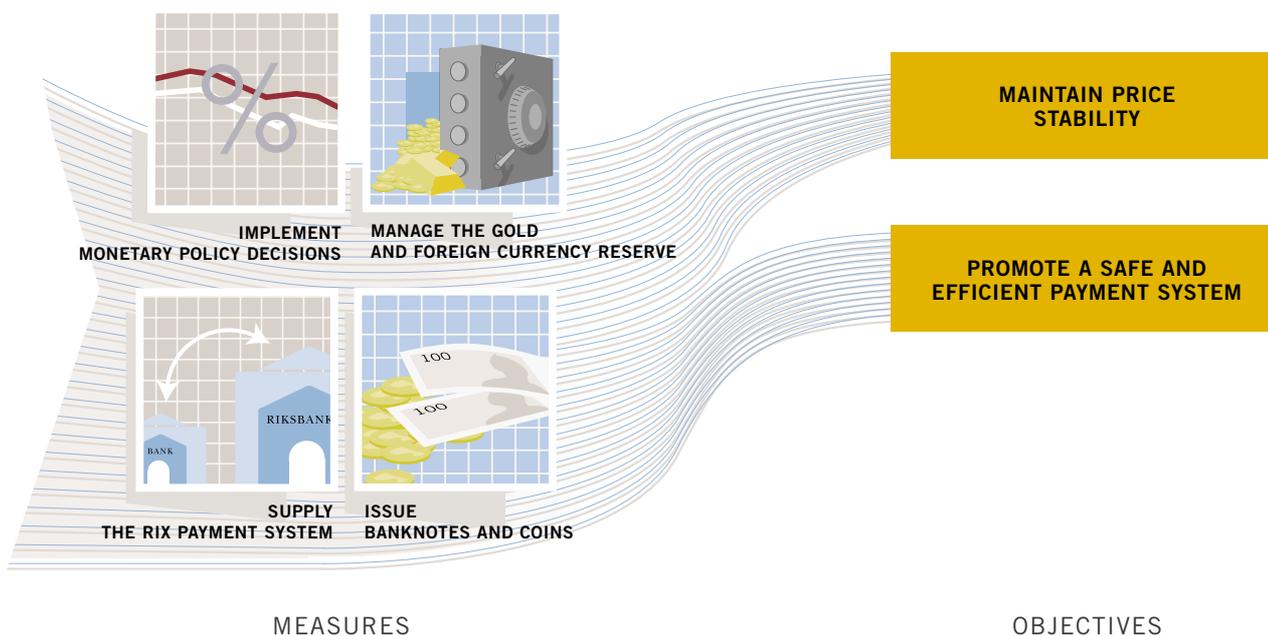
The design and application of the regulatory framework applying to financial institutions is the central government's most important means for maintaining financial stability. The very internationally integrated nature of the financial markets means that regulations have to apply across national borders to be effective. The regulations for Swedish financial institutions are determined by the government in consultation with Finansinspektionen (the Swedish financial supervisory authority). However, the Riksbank influences the wording of the regulations, both by participating in various international working groups and by expressing its views when proposals are circulated for comments.

The Riksbank's most important means for acting to promote a stable and safe payment system, in addition to what

stems from the bank's operational responsibility for the supply of banknotes and the RIX payment system, is the influence the bank can exert on the financial institutions and on other authorities. An open dialogue with financial institutions, financial markets, Finansinspektionen and other authorities is thus a very important means in the promotion of stability. There is also regular co-operation and an exchange of information with the other Nordic central banks, as the Swedish banking groups have a large part of their operations in neighbouring countries.

The Riksbank publishes the *Financial Stability Report* twice a year. This includes an account of the most important conclusions reached in the regular monitoring of the risks that could threaten financial stability. The report also contains special topics in fields important to efficiency and security in the payment system. The same day the report is published, the Riksbank organises a press conference at which the report's conclusions are presented. The conclusions are also presented to, and discussed with, Finansinspektionen and the banks. The report also comprises a base for speeches and lectures given by members of the Executive Board.

The Riksbank maintains preparation for a financial crisis, in the event that this should nevertheless occur, in the form of a constantly updated crisis organisation. To avoid a system crisis the Riksbank could choose to intervene and provide emergency liquidity assistance when a bank experiences liquidity problems, offering the bank a loan at more favourable terms than usual.



Organisation

The Riksbank is organised into eleven departments. Each department is managed by a head of department. The heads of department make decisions or delegate the right of decision within their fields of operation. They are also responsible for the drafting and presentation of issues to be decided by the Executive Board. The Riksbank has three departments that are directly aimed at the bank's main objectives: the Monetary Policy Department, the Financial Stability Department and the Market Operations Department. The work within the other departments is primarily aimed at supporting the bank's main tasks.

The Monetary Policy Department is responsible for monetary policy analysis, which forms the basis for the decisions taken to meet the objective of price stability. It monitors and analyses price developments and is responsible for balance of payments statistics. Head of Department: Claes Berg. Number of employees: 71

The Financial Stability Department is responsible for analysis of the stability of the financial system, which forms the basis for the decisions taken to meet the objective of a safe and efficient payment system. It monitors and analyses the payment system infrastructure, large individual operators and cash management. In addition, the department is responsible for financial statistics. Head of Department: Martin Andersson. Number of employees: 36

The Market Operations Department implements monetary and foreign exchange policy measures with the aim of affecting interest rates and/or the exchange rate in accordance with monetary policy decisions. In addition, the department manages the Riksbank's assets in foreign currency, analyses structural developments on the financial markets and gathers statistics on the interest rate and foreign exchange markets. It is also responsible for the running of the Riksbank's payment system and the supply of banknotes and coins. Head of Department: Christina Lindenius. Number of employees: 60

The Administration Department is responsible for office services, building maintenance, transport, security, planning and budgets, accounting, wages and financial systems, financial administration, personnel development and the supply of

competence. Head of Department: Agneta Rönström. Number of employees: 119

The Secretariat of the Executive Board is responsible for the administration of the meetings of the Executive Board and the General Council. It also provides legal support and carries out investigations. Head of Department: Robert Sparve. Number of employees: 22

The Research Department pursues research in fields relevant to the Riksbank's operations and provides support to operations in other departments connected with research. Head of Department: Anders Vredin. Number of employees: 9

The Communications Department is responsible for the bank's communication strategy and co-ordinates external and internal information. It is responsible for press services, the Riksbank's website, translation, publications, and the library, as well as lectures and seminars. Head of Department: Leif Jacobsson. Number of employees: 18

The International Department co-ordinates and develops the Riksbank's international work as well as assisting the Executive Board in international contacts. Head of Department: Christina Nordh Berntsson. Number of employees: 12

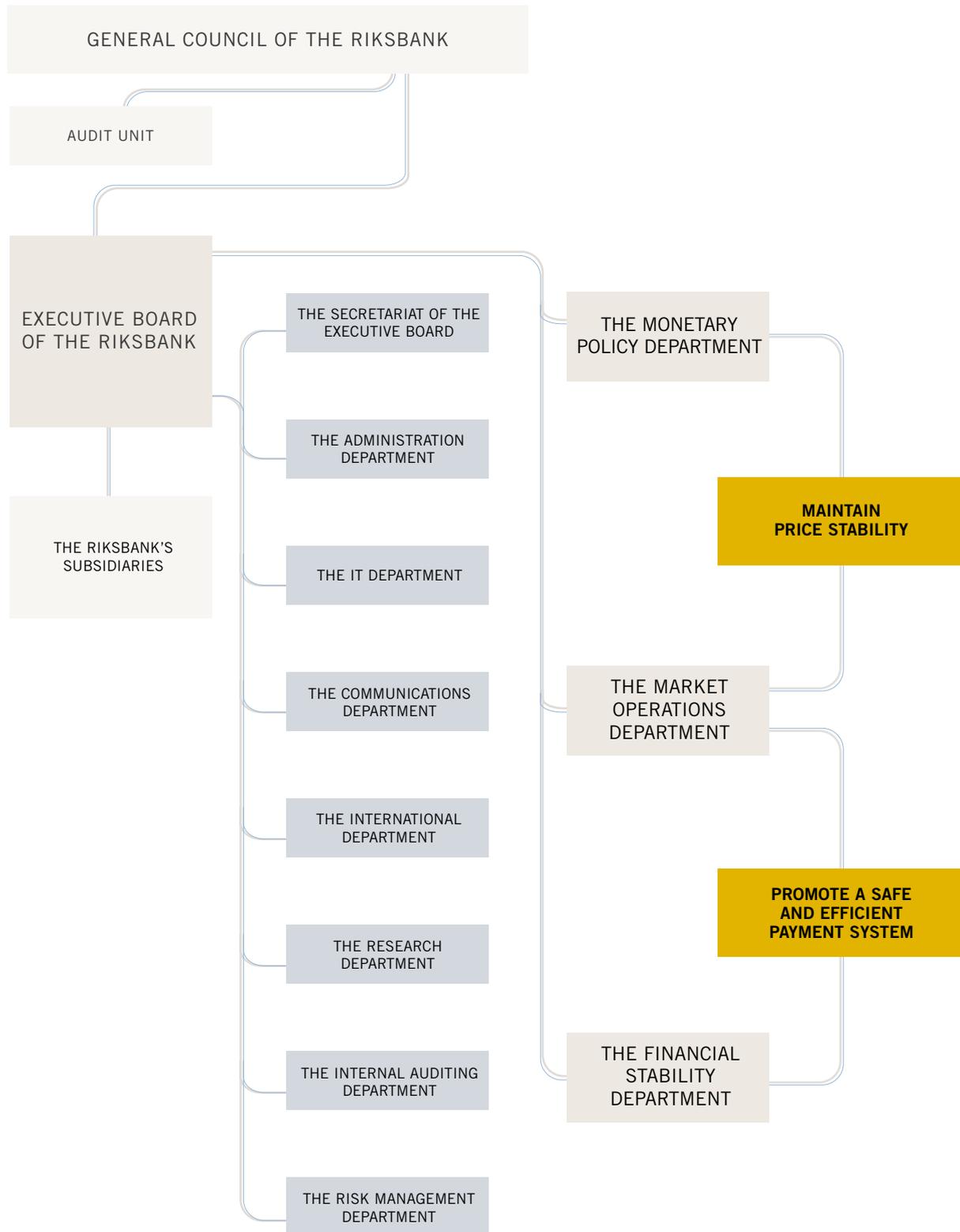
The Internal Auditing Department examines and evaluates the bank's operations and contributes to the work at the Riksbank being designed to function in an efficient and safe manner. Head of Department: Marie Rudberg. Number of employees: 6

The IT Department is responsible for administering and maintaining the bank's central IT resources, as well as developing and purchasing new systems. Head of Department: Staffan Wallén. Number of employees: 69

The Risk Management Department is responsible for the independent assessment of the level and results of the bank's financial risks. It develops methods for risk management. Head of Department: Kristina Åkerberg. Number of employees: 6

The figures for total numbers of employees refer to full-time posts at the end of 2001, i.e. the number of employees adjusted with regard to full-time or part-time posts.

Figure 5. The Riksbank's organisation and objectives



The Executive Board

The Riksbank is managed by an Executive Board consisting of six members. Urban Bäckström is Governor of the Riksbank and Chairman of the Executive Board. The deputy governors are Lars Heikensten, Eva Srejber, Villy Bergström, Lars Nyberg and Kristina Persson.

The members of the Executive Board are responsible for the bank's entire operations, that is to say, monetary policy, questions regarding financial stability, market operations and the payment system. In addition, the Executive Board has an overall responsibility for the bank's administration and sets the Riksbank's budget. The members are responsible for preparing matters concerning different areas of the bank's operations before decisions are taken by the Executive Board.

The Executive Board makes decisions collectively at its meetings, which usually take place on alternate Thursdays. The Chairman and Vice Chairman of the General Council have the right to attend the meetings of the Executive Board and to speak at the meetings, but not to make proposals or to vote. Prior to making a monetary policy decision of major importance, the Riksbank shall inform the government. During 2001 the Board held 36 meetings, ten of which were monetary policy meetings.

The Executive Board's meeting on 6 September was held in Karlskrona. This was for the purpose of obtaining views on the Riksbank's operations and being given the opportunity to discuss economic developments with representatives of trade and industry, as well as society, in the region.

During 2001 the members of the Executive Board have made around one hundred public speeches. These have covered subjects such as current monetary policy and the economic situation, financial stability, EMU and the euro, development trends in the global economy and the structure of the Swedish economy.

The Executive Board presents a written report on monetary policy to the Riksdag Finance Committee twice a year. The Inflation Report was used as a report to the Riksdag in 2001 and supplemented with a public hearing in the Finance Committee attended by the Governor of the Riksbank.

**Urban Bäckström,
mandate period six years from 1 January 1999**

Urban Bäckström is Chairman of the Executive Board and Governor of the Riksbank. He is a member of the General Council of the European Central Bank, ECB, President and Chairman of the Board at the Bank for International Settlements, BIS, and a member of the International Monetary Fund's, IMF's, governing board. Prior to his appointment as Governor of the Riksbank, Mr Bäckström was Under-Secretary of State at the Ministry of Finance responsible for issues concerning taxation, financial markets and housing financing. He has also been CEO of Consensus Fondkommission and chief economist at the Moderate Party. Urban Bäckström has been Governor of the Riksbank since 1994 and is the Board member responsible for preparing matters relating to the Secretariat of the Executive Board and the Riksbank's internal auditing.

**Lars Heikensten,
mandate period five years from 1 January 1999**

Lars Heikensten is the Governor's alternate, First Vice Chairman and First Deputy Governor. He has several international assignments, including acting as a member of the EU Economic and Financial Committee, the OECD's WP3 Committee and as the Governor's alternate in the IMF, the ECB and the Group of Ten, G10. Mr Heikensten has previously worked as chief economist at Svenska Handelsbanken and the Swedish National Debt Office, as well as being head of the economics department at the Ministry of Finance. He has a PhD in Economics and has been Deputy Governor since 1995. He is responsible for the preparation of monetary and exchange rate policy, issues concerning the Riksbank's financial risk management and issues regarding ownership of the Riksbank's subsidiaries.

**Eva Srejber,
mandate period four years from 1 January 1999**

Eva Srejber is Second Vice Chairman and Second Deputy Governor. She acts as the Governor's alternate in BIS and also has functions within the ECB. Previously she has worked



From the left: Villy Bergström, Kristina Persson, Urban Bäckström, Lars Nyberg, Eva Srejber and Lars Heikensten.

as Head of the Monetary and Foreign Exchange Policy Department at the Riksbank, been a member of the board of the IMF and was Deputy CEO responsible for EMU issues at Swedbank. Ms Srejber is responsible for preparing and co-ordinating international matters, the co-ordination of the financial sector's EMU preparations and the preparation of IT matters and administrative issues. She was also responsible for preparation of matters concerning internal and external communications until the end of the year.

Villy Bergström,
mandate period three years from 1999,
six years from 1 January 2002

Villy Bergström is Deputy Governor of the Riksbank. He is an associate professor in economics and has previously been head of the Trade Union Institute for Economic Research, FIEF, a member of SNS economic council and editor-in-chief of the Dala Demokraten newspaper. Bergström was re-appointed to the Board in November 2001 for a period beginning on 1 January 2002 until the end of 2007. He is responsible for the preparation of research matters and for the Riksbank's submissions on matters sent to the Riksbank for comment. With effect from 2002, he is also responsible for preparing matters concerning internal and external communications.

Lars Nyberg,
mandate period six years from 1 January 2000

Lars Nyberg is Deputy Governor of the Riksbank. He has international assignments with an emphasis on issues regarding financial stability and oversight, including at the ECB. Mr Nyberg is associate professor in economics and has previously worked as Deputy CEO at Svenska Handelsbanken and Swedbank and as CEO of Länsförsäkringsbolagens förening. He is responsible for preparing matters relating to financial stability and is also Chairman of the Board of the Riksbank's subsidiary Pengar i Sverige AB. He was also Chairman of the Board at AB Tumba Bruk up to the end of 2001.

Kristina Persson,
mandate period six years from 1 May 2001

Kristina Persson is Deputy Governor of the Riksbank. She has an MBA and has worked at the Ministry of Finance, the Institute for Future Studies and as TCO economist. She has also been a member of parliament and member of the Riksdag Finance Committee, as well as a member of the General Council of the Riksbank and a member of the European Parliament. Kristina Persson is responsible for the preparation of matters concerning the Riksbank's market operations, the management of the gold and foreign currency reserve, the Riksbank's system for interbank payments and matters regarding means of payment.

Project organisation for better co-operation

During 2001, the Riksbank's key words with regard to its internal culture – openness, competence, co-operation, overall view, taking initiative and respect – have acted as aims for the learning climate the Riksbank endeavours to achieve. These words should characterise both the daily work and the various investments in further development.

For the Riksbank, like many other knowledge organisations, its employees are its primary asset. The employees' knowledge and attitudes determine whether the Riksbank will be successful in achieving its objectives. Knowledge is acquired both through training and development in daily work. A valuable exchange of knowledge also takes place during the interplay with colleagues, managers and external contacts.

Leadership

The Executive Board, managers and project managers have the task of contributing to the Riksbank's achievement of its operational objectives. An important part of this work involves inspiring, developing and supporting the bank's employees. The personnel division comprises a support function for the managers and has been restructured during the course of the year in order to function more as advisers. Managers receive support, e.g., through training and models for appraisal interviews with their staff.

Over the year the Riksbank's fourth mentor programme for managers began. Its purpose is to promote individual personal development. The bank has chosen to use external mentors, partly because a relatively small organisation has limited opportunities to find internal mentors without other relationships to the mentees and partly to bring in new ideas and approaches from outside.

Competence development

The Riksbank shall be an attractive workplace with an atmosphere and environment that stimulate good results. It is the responsibility of each employee to take initiatives for his or her own development: to improve knowledge, work in new constellations, take greater responsibility and broaden his or her views. This responsibility also includes employees seeing the

overall view, sharing their knowledge and contributing to the development of ways and methods of working. Quality and development are achieved more easily when employees understand the whole process and can see their role in the chain.

Provision of competence

The provision of competence, that is to say, recruiting the right type of competence and developing employees, is an important strategic process. During 2001, the Riksbank has developed and structured its recruitment process, including improving the selection methods.

The majority of the provision of competence is through daily work and co-operation. The forms for the co-operation vary broadly, from international working groups to informal means of working with skilled, experienced colleagues. Much of the work carried out at the Riksbank is in project form, which makes it important to have a common project culture that provides projects with a clear organisation and steers them towards the set goals. During 2001 a joint project management model was introduced.

Equality and ethnic variety

In a dynamic organisation, the individual diversity among the employees is a valuable asset. Their differing backgrounds and experiences are important parts of the bank's competence. Putting together efficient and successful groups requires employees who together create a mixture of individual competences and qualities. An improved personnel composition, with a good mixture regarding gender and ethnic background has been a high priority during 2001.

Over the course of the year the Riksbank has organised two information evenings for women economists. These received a very positive response, both in terms of the large number of participants and in terms of an increase in the number of women applying for vacant posts.

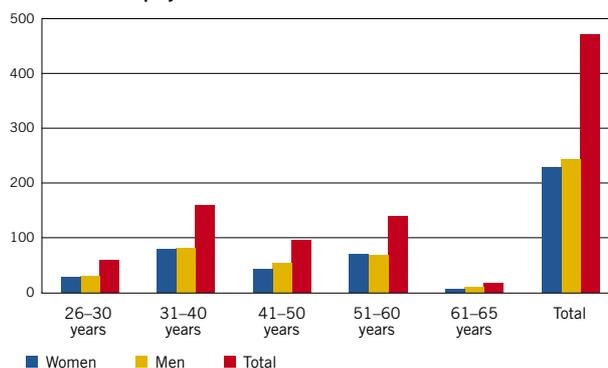
The bank began a survey of values and practice with regard to ethnic variety. Its purpose is to increase knowledge of the actual conditions in order to be able to adopt the right measures. The survey began in 2001 and will be completed during 2002.



Working environment

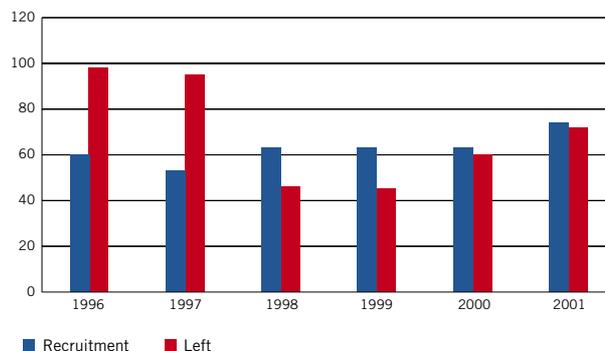
A picture of the employees' views of their work situation is obtained through appraisal interviews, attitude surveys and exit interviews. In this way, the Riksbank can identify areas for improvement and set objectives for a better working climate. Over the year a follow-up survey was made to see what had changed since the immediately preceding attitude survey. The survey showed an improved result in several areas, including the fact that co-operation had improved and the objectives had been made clearer.

Diagram 12. Age structure for Riksbank staff December 2001.
Number of employees



Note: At the end of 2001, the number of full-time posts was 471.
Source: The Riksbank.

Diagram 13. Personnel mobility.
Number of employees



Note: During the year 74 new employees were recruited and 72 left.
The new employees were mainly university graduates.
Source: The Riksbank.

The preventive aspect of the Riksbank's working environment involves, e.g., extensive programmes to promote good health, including exercise classes, relaxation and nutritional advice. Riksbank personnel have access to a well-equipped gym on the premises and all new employees receive assistance from an ergonomist who examines their work station.

The General Council

The General Council of the Riksbank consists of eleven members and an equal number of deputy members. The General Council is appointed by the Riksdag and its members have the same mandate period as members of the Riksdag. The members elect a Chairman and a Vice Chairman from among themselves.

The members of the General Council are Sven Hulterström (Chairman), Johan Gernandt (Vice Chairman), Sinikka Bohlin, Jörgen Andersson, Kenneth Kvist, Mats Odell, Ingegerd Troedsson, Peter Egardt, Kjell Nordström, Susanne Eberstein and Carin Lundberg, who on 23 November 2001 replaced Britt Bohlin.

The deputy members of the Council are Reynoldh Furustrand, Stephan Tolstoy, Sven-Erik Österberg, Siv Holma, Göran Hägglund, Margaretha af Ugglas, Marianne Carlström, Hans Gustaf Wessberg, Lars U. Granberg, Marie Granlund and Sonia Karlsson, who on 23 November 2001 replaced Carin Lundberg.

The functions of the General Council

The primary function of the General Council is to appoint the members of the Executive Board and establish their salaries and other terms of employment. The General Council also decides on the Working Order for the Riksbank, which states the framework for the bank's operations. In addition, the General Council determines the design of banknotes and coins.

The General Council can express opinions on submissions within its field of operations and, in consultation with the Executive Board, present proposals to the Riksdag and the government regarding statutory amendments or other measures in its field of operations. The General Council's Audit Unit examines the work of the Riksbank and how the members of the Executive Board exercise their duties.

The General Council also presents proposals to the Riksdag and the Parliamentary Auditors regarding the allocation of the Riksbank's profits.

The General Council in 2001

During 2001, the General Council met on ten occasions. The Chairman and Vice Chairman have regularly attended the meetings of the Executive Board. The General Council has received regular reports on operations from the Executive Board.

During the year the General Council's work has included decisions regarding a change in the Riksbank's regulations on national coins and regulations concerning banknotes in 100-krona and 500-krona denominations, the design of a commemorative coin to mark the 100th anniversary of the Nobel Prizes, an audit plan for the Audit Unit and the allocation of the Riksbank's profits for the financial year 2000. The General Council has also discussed the issue of the Riksbank's balance sheet and the size of its equity capital on a number of occasions.

In May 2001, the General Council organised a spring meeting in Stockholm. This occasion was used to present and discuss various aspects of the bank's operations. Around 150 persons attended, including representatives of the Riksdag, central civil service departments and organisations, as well as regional and local representatives of society, trade and industry.

The Audit Unit has mainly examined whether the working order for the Riksbank has agreed with the instructions for the Riksbank, the work done by the members of the Executive Board and the Riksbank's proposal for the allocation of profits.

In January 2001, the General Council appointed Kristina Persson as member of the Executive Board to succeed Kerstin Hessius. Kristina Persson's mandate period comprises six years from 1 May 2001. In November, the General Council re-elected Villy Bergström to the Executive Board for a period of six years with effect from 1 January 2002.



Peter Egardt

Susanne Eberstein

Mats Odell

Jörgen Andersson

Ingegerd Troedsson

Sinikka Bohlin

Carin Lundberg

Kenneth Kvist

Johan Gernandt

Kjell Nordström

Sven Hulterström

Britt Bohlin

Directors' report

Operations

The operations of the Riksbank are governed by Chapter 9, articles 12 and 13 of the Instrument of Government (part of the Constitution), Chapter 8, article 6 of the Riksdag Act and by the Sveriges Riksbank Act. According to Chapter 9, article 12 of the Instrument of Government, the Riksbank is "the Swedish central bank and an authority under the Riksdag". The Riksbank is responsible for monetary policy. According to Chapter 1, article 2 of the Sveriges Riksbank Act (1988:1385; most recently amended version 2000:427), the objective of the Riksbank's operations is to maintain price stability. The most important monetary policy instrument for achieving this is the repo rate. The Riksbank shall also promote a safe and efficient payment system.

The Riksbank has signed an agreement with the American company Crane & Co regarding the sale of AB Tumba Bruk. This agreement involves Crane & Co taking over management and operations with effect from 1 January 2002. The sale of the shares will be finally regulated in February 2004 at the latest, in accordance with the provisions in the agreement regarding mutual buy and sell rights between Crane & Co and the Riksbank. The Riksbank has also signed an agreement with the Finnish state-owned mint, Rahapaja Oy, regarding the sale of the Swedish Mint in Eskilstuna, which previously belonged to Tumba Bruk. As part of the restructuring and the sale of Tumba Bruk, the Riksbank acquired two companies in December 2001. Eskilstuna Penningsmedja AB is used merely as a stage in the sale of the Swedish Mint. Tumba Kulturfastigheter AB has the task of taking over the cultural heritage buildings, land and equipment at Tumba during a transitional period.

The Riksbank and Statistics Sweden have signed an agreement during 2001 that involves the latter taking over the production of the Riksbank's financial market statistics, as well as parts of the production of the balance of payments statistics, in 2003.

The sale of Tumba Bruk and the transfer of parts of the statistics operations are a stage in the Riksbank's concentration on its core business.

Organisation

According to Chapter 9, article 12 of the Instrument of Government, the Riksbank is led by an Executive Board, which consists of six members. During 2001, 36 Executive

Board meetings were held. The General Council appoints the members of the Executive Board and supervises the Riksbank's operations. The General Council consists of eleven members and the same number of deputies. During 2001, the General Council met on ten occasions. The Riksbank is organised into 11 departments. In addition, the Riksbank has four subsidiary companies.

Personnel

At the end of 2001, 471 persons were employed at the Riksbank. In 2000, the corresponding figure was 469 persons. Of the employees on 31 December 2001, 48 (47) per cent were women and 52 (53) per cent men. At the end of 2001, the number of full-time posts amounted to 427 (411).

Personnel turnover remained largely unchanged from 2000. During 2001, the Riksbank recruited 74 (63) persons externally and 27 (47) internally. Of the 72 persons who left in 2001, 65 left at their own request and 7 retired.

Financial structure

A simplified version of the Riksbank's balance sheet:

The Riksbank's balance sheet as of 31 December 2001, SEK billion

Assets		Liabilities	
Gold and foreign currency reserve	165,134	Banknotes and coins in circulation ³	107,111
Lending to banks	69,135	Deposits from banks	48
Other assets	1,263	Other liabilities	11,805
		Total equity	116,568
Total	235,532	Total	235,532

The assets currently consist of a gold and foreign currency reserve, lending to banks and other assets. The liabilities consist of banknotes and coins in circulation, deposits from banks, other liabilities and the total equity.

Of these items, it is primarily the gold and foreign currency reserve, the banknotes and coins in circulation and the lending to and deposits from banks that usually change continuously over the year. The other items are relatively stable (equity plus other assets and other liabilities). The

3. Unlike most central banks, the Riksbank also issues coins.

Riksbank previously had a portfolio of securities denominated in krona (assets in Swedish krona), but this was dismantled during 2001.

Gold and foreign currency reserve

The gold and foreign currency reserve consists, as the name implies, of gold and securities denominated in foreign currency, as well as receivables from the International Monetary Fund, the IMF. The primary purpose of maintaining a foreign currency reserve is to be prepared for foreign exchange interventions. In the event of a severe crisis, the reserve could also be used to provide support to Swedish banks. Foreign exchange interventions are when the Riksbank buys and sells currency for Swedish krona with the aim of influencing the exchange rate. Interventions are mainly used when the exchange rate is fixed in relation to other currencies. Sweden has had a floating exchange rate since 1992, which has meant that the value of the krona in relation to other currencies is determined by the market. The Riksbank therefore intervenes relatively seldom, but a change in the exchange rate system⁴ could alter this. Interventions can be carried out even under a floating exchange rate regime, which was the case during 2001.

The management of the foreign currency reserve is aimed at providing the highest return possible, given the risk level set by the Executive Board of the Riksbank. The foreign currency reserve, excluding special drawing rights with the IMF, is mainly invested in assets with a state guarantee in four currencies: US dollars (35 per cent), euro (35 per cent) British pounds (15 per cent) and Japanese yen (15 per cent).

As part of its management of the foreign currency reserve, the Riksbank participates in securities lending programmes with three custody banks, where these banks act on behalf of the Riksbank to lend the Riksbank's securities in exchange for other securities. The total nominal value of the securities on loan at 31 December 2001 amounted to SEK 43,212 million (SEK 46,190 million).

During 2001, the foreign currency reserve has declined by SEK 4,921 million. The Riksbank's activities on the foreign exchange market have reduced the reserve, which is partially balanced by the results achieved by the foreign currency reserve.

The management of the gold reserve follows the principles in an agreement from 1999 between a number of cen-

tral banks in industrial nations. This agreement involves, e.g., that no gold can be sold prior to 2004 and that only a limited amount may be lent out. The Riksbank therefore only lends out parts of its gold holdings.

Deposits from and lending to the banks

The banks' borrowing requirements from the Riksbank depend partly on the general public's willingness to hold banknotes and coins. Most of the lending to banks is through the main refinancing operations known as monetary policy repos. A monetary policy repo means that the Riksbank supplies liquidity by buying securities from the banks and at the same time agreeing to sell back the securities to the banks after a set period of time (among market operators this is known as a reversed repo). The Riksbank then receives its money back and the securities are returned to the original owners.

The item "main refinancing operations" has increased over the year by SEK 24,247 million. This is mainly due to the foreign exchange interventions made by the Riksbank and to a larger volume of banknotes in circulation. In addition to lending via repos, there is a certain amount deposit and lending to banks via accounts.

Banknotes and coins in circulation

The volume of banknotes and coins in circulation is determined by demand from the general public. In nominal terms, the volume of banknotes and coins in circulation increased between the end of 2001 and the previous year by SEK 9,448 million. As in previous years, the volume showed seasonal variations. The general public's willingness to hold banknotes and coins normally increases in connection with public holidays, e.g. over the Christmas period.

Total equity

The size of equity increases when the Riksbank makes a profit and declines when the reverse occurs. The Riksbank's total results include the increased or decreased value of the foreign currency reserve as a result of developments in the krona exchange rate. The exchange rate effects are conveyed to the contingency fund. Of the Riksbank's profits, 80 per cent of the average result over the past five years, excluding exchange rate effects, is transferred to the Treasury and the rest is put in funds. The dividend paid in 2000 was SEK 8,200 million. In addition to the normal dividend payment, parliament decided that an extra allocation of SEK 20,000 million should be paid to the Treasury. This was

4. It is the government that determines what exchange rate system Sweden will follow, while the Riksbank determines how it shall be applied.

largely achieved through the Riksbank's divestment of the portfolio of Swedish treasury papers that it had held for a long period of time. At the same time, it meant that the amount of total equity declined by SEK 7,890 million during 2001. The reduction in equity came from the fact that the dividend paid to the Treasury exceeded the profits for the year.

The overall objective of the Riksbank's operations is not to generate profit; the result that arises is the consequence of the Riksbank's tasks as a central bank. The Riksbank's profits for 2001 amounted to SEK 19,277 million (SEK 20,309 million).

Interest income for 2001 amounted to SEK 9,197 million and has declined by SEK 375 million compared with the previous year, mainly due to the divestment of the portfolio of Swedish securities. During the year 2001 interest rates in the USA, the Euro area, Japan and the UK have for the most part fallen. Overall, this has meant a positive price effect for foreign operations of SEK 852 million. Interest rates in Sweden have risen during the year, which entailed a negative price effect for domestic operations of SEK 583 million.

During 2001, the krona weakened in total against the currencies in the foreign currency reserve, which resulted in a positive exchange effect of SEK 9,133 million. The gold valuation effect for 2001 amounted to SEK 2,008 million and consists of unrealised profits relating to the change in market valuation of the gold holding in 2001.

One per cent higher/lower security interest rates at the year-end would have deteriorated/improved the result (the price effect) by approximately SEK 5,400 million and a 10 per cent stronger/weaker krona would have deteriorated/improved the result (exchange rate effect) by approximately SEK 13,900 million.

Financial risk management

Financial operations generate risks and the management of these forms a natural and essential part of operations. The Riksbank is exposed to risks in the management of assets such as the foreign currency reserve, in the implementation of monetary policy and during transactions in the payment system. These risks can be divided up into prestige risks, credit risks, market risks, liquidity risks and operational risks. The Riksbank is constantly developing its methods in the field of risk management with the aim of managing these risks in accordance with good market practice.

The responsibility for managing, checking and reporting the Riksbank's financial risks lies at several levels, but the ul-

timate responsibility for the Riksbank's operations lies with the Executive Board. The Drafting Committee for the Riksbank's Financial Risks discusses issues relating to risk policy, risk levels, risk limits and evaluation. Each head of department is responsible for ensuring that the risks in his or her own operations are dealt with in a satisfactory manner on a daily basis. Independent risk management is exercised by the Risk Management Department, which answers to the Executive Board. In addition, the Riksbank's Internal Auditing Department examines and assesses the efficiency and integrity of the risk management.

Prestige risks refer to risks that the Riksbank's reputation will be negatively affected as a result of the way that financial operations are conducted. This risk can be limited by the Riksbank having a well-developed risk management process that includes guidelines for the staff's ethical behaviour as well as quality requirements for the bank's counterparties.

Credit risk is the risk of unexpected losses as a result of the Riksbank's counterparties being unable to meet their commitments to the bank. To limit the Riksbank's counterparty risks, qualitative (e.g. credit ratings) and quantitative requirements are made of the Riksbank's counterparties and of the collateral (securities) presented to the Riksbank. Credit ratings from established ratings institutes are used to assess the credit standard of the collateral (debt instruments) or the counterparty respectively in both monetary policy operations and the management of the foreign currency reserve. In the management of the foreign currency reserve, the amount invested with each counterparty is limited by the counterparty's credit rating and equity capital. The maximum permitted counterparty exposure is expressed as a percentage of the foreign currency reserve's market value.

Liquidity risk is the risk that the Riksbank will not be able to meet its payment obligations immediately. The Riksbank retains a level of liquidity that means it is prepared for both regular and unforeseen payment obligations. To further reduce the liquidity risk, the Riksbank invests in instruments for which there are large, liquid markets, as well as investing in different currencies and on different markets.

Market risk is the risk of unforeseen losses on the Riksbank's assets as a result of changes in interest rates and exchange rates. Interest rate risk is limited by the interval for the modified duration⁵ of the foreign currency reserve, 4 to 6.5 per cent, which is set by the Executive Board. The profit and risk levels for the respective portfolios are assessed daily against a benchmark portfolio. The risk measure is supple-

mented by analyses of how the portfolio's results would change if historical and/or very unusual events were to occur (Value-at-Risk analyses⁶, VaR, and stress and scenario tests). Foreign exchange risk is managed by the Riksbank investing in four different currencies with a limited internal correlation. The distribution between these currencies is fixed. The Riksbank's investment decisions are based on a conservative risk assessment.

Operational risk is the risk of unexpected losses as a result of deficiencies in administrative routines or systems, inadequacies in internal control or insufficient knowledge among employees. These risks are limited by employing knowledgeable and risk-conscious personnel, having clear and well-known internal regulations and separate areas of responsibility.

Accounting principles

The balance sheet and the profit and loss account for the Riksbank have been compiled as provided for in the Sveriges Riksbank Act and in accordance with the Accounting Instruction that the Executive Board has approved for the Riksbank.

Changes in accounting principles

The accounting principles have not been changed during 2001.

Reporting of market-listed assets

The Riksbank's market-listed assets are reported in the balance sheet at the current market price. Receivables and liabilities in foreign currencies are valued at the buying rate on the balance sheet date. Accrued interest is included in the market value for interest-bearing assets and liabilities.

Realised and unrealised gains and losses in foreign currency are credited or debited to the net operating profit/loss under the item "Net result of financial transactions". This item also includes valuation of any existing forward positions, as well as realised and unrealised exchange rate gains or losses on securities.

Reporting of business transactions

Business transactions are reported at the time when the parties exchange risks and rights. For money, bond and foreign exchange transactions, this involves trade-date accounting. Lending and borrowing transactions, including repo transactions, are booked on the settlement date.

The Riksbank, like the financial sector as a whole, works continuously on improving the methods for measuring and following up risks. This includes co-operation with other central banks and financial institutions to develop risk management. The Riksbank's own development work during 2001 was primarily focused on designing a new system for calculating return and on the management of operational risks.

5. By duration is meant the portfolio's balanced, average time to maturity.

6. VaR is a statistical method to express the maximum potential loss that will occur with a certain probability during a particular period of time.

Repo accounting

A repo is an agreement to sell assets such as securities and gold and simultaneously undertake to buy back equivalent assets at a specified date in the future. These repurchase agreements are reported as loan transactions and therefore do not affect the holdings of securities and gold.

Assets pledged by the Riksbank as collateral for repos are still included in the accounts and valued in accordance with the rules for other holdings of securities and gold by the Riksbank. The equivalent of the sales price is registered as a liability and the pledged assets are booked as memorandum items. Assets received by the Riksbank under reverse repos are not included in the accounts because they constitute loan collateral. The equivalent of the purchase price is registered as a receivable. The difference between the two payments in a repo (spot and forward) is treated on an accrual basis over the duration of the repo.

Accounting for tangible fixed assets

The Riksbank's tangible fixed assets are booked at acquisition value and depreciated as planned. Write-downs are made for depreciation that is considered to be permanent. Buildings are depreciated over a period of 50 years, other fixed assets over 5–15 years. Inventories are written off over 3–7 years. In certain cases, personnel costs for internal development work on IT investments are included in the asset's acquisition value.

Balance Sheet

Assets, SEK million		31-12-2001	31-12-2000
Gold	Note 1	17,436	15,428
Claims on residents outside Sweden denominated in foreign currency			
Receivables from the IMF	Note 2	13,293	10,671
Balances with banks and security investments	Note 3	134,405	141,948
		147,698	152,619
Lending to monetary policy counterparties denominated in Swedish kronor			
Main refinancing operations	Note 4	65,118	40,871
Fine-tuning operations	Note 5	3,988	2,285
Marginal lending facility	Note 6	29	48
		69,135	43,204
Securities of residents in Sweden denominated in Swedish kronor	Note 7	-	20,728
Other assets			
Tangible fixed assets	Note 8	406	372
Financial assets	Note 9	617	667
Off-balance sheet instruments	Note 10	-	-
Accruals and deferred expenditure	Note 11	4	17
Other assets	Note 12	236	220
		1,263	1,276
Total assets		235,532	233,255
Liabilities and capital, SEK million		31-12-2001	31-12-2000
Banknotes and coins in circulation			
Banknotes	Note 13	102,367	93,229
Coins	Note 14	4,744	4,434
		107,111	97,663
Liabilities to monetary policy counterparties denominated in Swedish kronor			
Deposit facility	Note 15	48	108
Fine-tuning operations	Note 16	-	-
		48	108
Liabilities to residents outside Sweden denominated in Swedish kronor	Note 17	161	159
Liabilities to residents in Sweden denominated in Swedish kronor	Note 18	2,204	1,432
Liabilities to residents outside Sweden denominated in foreign currency	Note 19	3,549	4,105
Counterpart of special drawing rights allocated by the IMF	Note 20	3,271	3,066
Other liabilities			
Off-balance sheet instruments	Note 21	176	130
Accruals and deferred income	Note 22	9	6
Liabilities on securities settlement proceeds	Note 23	-	493
Other liabilities	Note 24	2,435	603
		2,620	1,232
Balancing Account and capital			
Balancing Account	Note 25	26,401	42,193
Capital	Note 26	70,890	62,988
		97,291	105,181
Result for the year		19,277	20,309
Total liabilities and capital		235,532	233,255

Memorandum items, see Note 39.

Profit and Loss Account

SEK million		2001	2000
Interest income	Note 27	9,197	9,572
Interest expense	Note 28	-445	-548
Net result of financial operations	Note 29	11,410	12,009
Fees and commissions income	Note 30	11	12
Fees and commissions expense	Note 31	-4	-7
Income from equity shares	Note 32	35	38
Other income	Note 33	11	21
Total net income		20,215	21,097
Staff costs	Note 34	-279	-253
Administrative expenses	Note 35	-211	-160
Depreciation of fixed assets	Note 36	-63	-62
Banknote and coin expenses	Note 37	-332	-209
Other expenses	Note 38	-53	-104
Total expenses		-938	-788
Result for the year		19,277	20,309

Notes

SEK million

Note 1 Gold

	31-12-2001	31-12-2000
Quantity		
Troy ounces (million)	5.96	5.96
Price		
USD per ounce	277.25	272.79
SEK/USD	10.55	9.49
Book value	17,436	15,428

The Riksbank holds 5.96 million ounces (troy/oz) of gold, which is equivalent to 185.4 tonnes.

Note 2 Receivables from the IMF

	31-12-2001	31-12-2000
Special Drawing Rights	2,076	2,039
Reserve position in the IMF	10,932	8,432
Other receivables	246	137
Accrued interest	39	63
Total	13,293	10,671

The Riksbank holds special drawing rights of SDR 157 million. Sweden's total capital contribution (quota) to the IMF amounts to SEK 31,662 million (SDR 2,395.5 million) and is booked net of the IMF's accounts for Swedish kronor as the item Reserve position in the IMF.

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

Note 3 Balances with banks and security investments

This item consists mainly of foreign treasury papers and state-guaranteed securities as well as assets in foreign banks, such as deposits and nostro accounts. The securities are denominated in US dollars, euro, pounds sterling and Japanese yen. The Target/E-RIX balanced is also reported net here.

Note 4 Main refinancing operations

The Riksbank's regular monetary policy repo operations are reported here.

Note 5 Fine-tuning operations

This item is used to report lending with the aim of 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 Securities of residents in Sweden denominated in Swedish kronor

The Riksbank's holding of securities in Swedish kronor issued by residents in Sweden was transferred at the end of 2001 to the Swedish National Debt Office in the extra dividend payment to the Treasury.

Note 8 Tangible fixed assets

	31-12-2001	31-12-2000
Properties		
Acquisition value	324	295
Accumulated depreciation	-101	-95
Book value properties	223	200
Machinery and equipment		
Acquisition value	430	401
Accumulated depreciation	-247	-229
Book value machinery and equipment	183	172
Total	406	372

During 2001 a property was purchased from the Riksbank's staff holiday association. At the end of 2001, the Riksbank owned three properties, which are located in Stockholm and Gävle.

Note 9 Financial assets

	31-12-2001	31-12-2000
Shares and participation rights		
AB Tumba Bruk/Crane AB 860,000 shares with a par value of SEK 100 each	43	43
Pengar i Sverige AB 150,000 shares with a par value of SEK 100 each	250	300
Eskilstuna Penningsmedja AB 1,000 shares with a par value of SEK 100 each	0	-
Tumba Kulturfastigheter AB 1,000 shares with a par value of SEK 100 each	0	-
Swift 33 shares with a par value of EUR 125 each	0	0
BIS 16,021 shares with a par value of 2,500 gold francs each	267	267
European Central Bank 5 % of 2.7 % of the total participation rights	57	57
Total	617	667

Shares and participation rights are valued at the lowest of the acquisition value and the real value on the closing day. During 2001, the shareholding in PSAB Pengar i Sverige has been written down by SEK 50 million (SEK 100 million). As a stage in the sale of the shares in AB Tumba Bruk, the Riksbank has acquired two subsidiaries during 2001; Eskilstuna Penningsmedja AB and Tumba Kulturfastigheter AB.

Note 10 Off-balance sheet instruments

Off-balance sheet instruments with a positive net market value are reported here.

Note 11 Accruals and deferred expenditure

Prepaid expenses and accrued income that do not relate to interest-bearing assets and liabilities are reported here.

Note 12 Other assets

This item consists mainly of advances to employees of the Riksbank and PSAB Pengar i Sverige AB, SEK 188 million (SEK 174 million).

Note 13 Banknotes

The value of banknotes in circulation, by denomination:

	31-12-2001	31-12-2000
1,000 kronor	48,358	46,217
500 kronor	40,727	35,943
100 kronor	10,371	8,216
50 kronor	1,096	1,074
20 kronor	1,504	1,467
10 kronor	231	232
5 kronor	80	80
	102,367	93,229

Note 14 Coins

The value of coins in circulation, by denomination:

	31-12-2001	31-12-2000
10 kronor	1,808	1,653
5 kronor	1,064	996
2 kronor	8	8
1 kronor	1,052	987
0:50 kronor	248	232
Commemorative coins	564	558
	4,744	4,434

Note 15 Deposit facility

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

Note 16 Fine-tuning operations

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

Note 17 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 18 Liabilities to residents in**Sweden denominated in foreign currency**

Accounts in foreign currency that the Riksbank holds on behalf of the Swedish National Debt Office are reported here.

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

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

Note 20 Counterpart of special drawing rights allocated by the IMF

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

Note 21 Off-balance sheet instruments

Off-balance sheet instruments with a negative net market value are reported here.

Note 22 Accruals and deferred income

This item is used to report accrued expenses and deferred income not relating to interest-bearing assets and liabilities.

Note 23 Liabilities on securities settlement proceeds

Liabilities on securities settlement proceeds refer to purchase amounts for securities purchased where payment has not yet been made.

Note 24 Other liabilities

	31-12-2001	31-12-2000
Pension liability	489	477
Holiday pay liability	19	18
Accounts payable – trade	55	19
Other	1,872	89
	2,435	603

The pension liability has been calculated by the National Government Employee Pensions Board and includes SEK 26 million regarding personnel transferred to Pengar i Sverige AB in 1999. The pension liability amounting to SEK 8 million regarding personnel moved to AB Tumba Bruk in 1971 was transferred to KPA Pensionsförsäkring AB in 2001.

The item Other includes SEK 1,852 million for 2001 regarding a temporary liability to the Swedish National Debt Office caused by a payment made at the end of the year. The item Other also includes, for the year 2000, SEK 40 million regarding funds that the Riksbank was authorised by parliament's decision on the allocation of profits in 2000 to pay directly to an institute for Jewish studies, Paideia, when the formalities regarding the formation of the institute and the payment were complete. This payment was made during 2001.

Note 25 Balancing Account

This account has been used since 1988 in accordance with the guidelines for the allocation of the Riksbank's profits.

Note 26 Capital

The capital consists of:

	31-12-2001	31-12-2000
Capital	1,000	1,000
Reserve Fund	500	500
Contingency Fund		
Allocations from profits	56,294	48,387
Write-up of gold reserve	12,686	12,686
Write-up of fixed assets	175	180
Write-up of BIS shares	235	235
	70,890	62,988

The Riksbank Act states that the Riksbank shall have capital to an amount of SEK 1,000 million and a reserve fund amounting to SEK 500 million, as well as a contingency fund.

The size of the contingency fund is not regulated in the Riksbank Act, but has been used since 1988 according to the guidelines for the Riksbank's allocation of profits set in the same year. It is also used for entering the amounts of asset write-ups. During 2001 a transfer has been made between the items write-up of fixed assets and allocation of profits at SEK 5 million due to the year's depreciation and write-downs, as well as sales of fixed assets.

The changes in the items balancing account, equity capital and result for the year are explained in the table below:

	Balancing account	Equity capital	Result for the year	Total
Opening balance on 1 January	42,193	62,989	20,309	125,491
Transfer to the Treasury			-28,200	-28,200
Transfer to/from				
Balancing Account	-15,792		15,792	0
Contingency Fund		7,901	-7,901	0
Result for the year			19,277	19,277
Balance at the end of the year	26,401	70,890	19,277	116,568

Note 27 Interest income

	2001	2000
Foreign securities	6,399	6,702
Domestic securities	574	1,484
Main refinancing operations	2,185	1,359
Other	39	27
	9,197	9,572

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

Note 28 Interest expense

	2001	2000
Foreign liabilities	-427	-512
Domestic liabilities	-18	-36
	-445	-548

Interest expense consists primarily of interest on deposit accounts at the Riksbank.

Note 29 Net result of financial transactions

	2001	2000
Price effect		
foreign securities	852	4,553
domestic securities	-583	578
Exchange rate effect	9,133	6,224
Gold valuation effect	2,008	654
	11,410	12,009

The price effect includes realised and unrealised exchange rate gains and losses on securities.

The exchange rate effect includes realised and unrealised results from assets and liabilities in foreign currency.

The gold valuation effect includes realised and unrealised results relating to changes in the market value of the gold reserve during 2001.

Note 30 Fees and commissions income

This item mainly includes annual fees and transaction fees with regard to the RIX system.

Note 31 Fees and commissions expense

This item mainly includes expenses for securities custody accounts.

Note 32 Income from equity shares

Dividend has been received from BIS amounting to SEK 35 million.

Note 33 Other income

Other income relates primarily to remuneration from Pengar i Sverige AB regarding rent and IT services. At the end of 2001 the need for IT services ceased.

Note 34 Staff costs

	2001	2000
Salaries and benefits	-151	-142
Pension costs	-53	-35
Social security charges	-54	-53
Other	-21	-23
	-279	-253

Salaries and benefits to the members of the Executive Board totalled SEK 9 million (SEK 9 million) in 2001. Salary has been paid for a period of seven months to a departing member of the Executive Board and for eight months to a new member of the Board. The General Council has decided that during the statutory qualification period after the end of employment, members of the Board shall in principle receive a full salary without a work requirement. However, deduction will be made for any income for other employment during this period.

The Administrative Board of the Riksdag's regulation (RFS 1996:4) on the implementation of the ordinance on pensions for senior government officials, etc. normally applies for members of the Executive Board. For the departing member of the Executive Board, the Riksbank has instead paid a pension premium during the first seven months of the year to an insurance institution of SEK 19,000 per month, as the requirements for

age and appointment as a senior government official made in the ordinance would not entitle this member of the Board to any benefit.

Note 35 Administrative expenses

	2001	2000
Information, hospitality	-18	-11
Transport, travel	-16	-17
Consultants, other services	-68	-40
IT operations	-51	-45
Economics prize	-17	-15
Other	-41	-32
	-211	-160

Information expenses include costs for the Riksbank's regular publications (Inflation Report, Financial Stability Report, Annual Report, Quarterly Review, etc.), special information projects, the staff magazine Bancoposten, etc. Other expenses here consist primarily of operating costs for offices and properties.

Note 36 Depreciation of tangible fixed assets

This item is used to report depreciation according to plan of tangible fixed assets.

Note 37 Banknote and coin expenses

Of the total cost for banknotes and coins of SEK 332 million, SEK 236 million is for banknotes and SEK 96 million for coins.

Note 38 Other expenses

This item mainly consists of a write-down of SEK 50 million (SEK 100 million) with regard to the shareholding in Pengar i Sverige AB.

Note 39 Memorandum items

Pledged collateral

Securities with a market value equivalent to SEK 272 million have been pledged in connection with foreign securities repos.

Securities with a market value equivalent to SEK 93 million have been pledged as marginal collateral.

Gold with a market value equivalent to SEK 11,047 million has been lent, including SEK 844 million in the form of gold repos.

Contingent liabilities

An undertaking to pay to 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 in 1971.

Commitments

Mutual short-term exchange support agreements with the central banks in Denmark, Norway and Iceland to provide up to EUR 1,000 million⁷.

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 859 million⁷.

The Riksbank has entered into a foreign exchange forward agreement with the Swedish National Debt Office with effect from 2000, with the aim of evening out exchange rate fluctuations for both authorities during currency exchanges with regard to the National Debt Office's amortisation and interest payments on the central government foreign debt. Outstanding currency forward contracts with a positive value amounted to SEK 0 million (SEK 2,449 million) with a market value of SEK 0 million (SEK 90 million). Outstanding currency forward contracts with a negative value amounted to SEK 0 million (SEK 6,089 million) with a market value of SEK 0 million (SEK 219 million).

Outstanding interest rate forward contracts with a positive value amounted to SEK 0 million (SEK 1,310 million) with a market value of SEK 0 million (SEK 1 million). Outstanding interest rate forward contracts with a negative value amounted to SEK 3,205 million (SEK 3,532 million) with a market value of SEK 72 million (SEK 1 million).

Outstanding currency swaps with a negative value amounted to SEK 3,160 million (SEK 0 million) with a market value of SEK 101 million (SEK 0 million).

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

The Riksbank has given an undertaking to a limited number of officials who have transferred to employment at Pengar i Sverige AB that they will have the possibility to return to employment at the Riksbank as long as the company is owned by the Riksbank. If the share majority passes to another owner(s), the corresponding commitment will be valid for a maximum of two years after the change in majority ownership.

Undertaking to provide the Nobel Foundation with funds for the annual award of a prize in economic sciences in memory of Alfred Nobel.

7. Translation rates to SEK on 31 December 2001: EUR 9.30 and SDR 13.22.

Five-year overview

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

<i>Balance Sheet, SEK million</i>	31-12-01	31-12-00	31-12-99	31-12-98	31-12-97
ASSETS					
Gold	17,436	15,428	14,774	13,834	10,825
Claims on residents outside Sweden denominated in foreign currency					
Receivables from the IMF	13,293	10,671	12,949	13,707	9,242
ECU receivables from the ECB/EMI	-	-	-	-	10 598
Balances with banks and security investments	134,405	141,948	125,018	108,705	70,212
	147,698	152,619	137,967	122,412	90,052
Lending to monetary policy counterparties denominated in Swedish kronor					
Main refinancing operations	65,118	40,871	45,596	41,581	36,216
Fine-tuning operations	3,988	2,285	-	2,240	4,090
Marginal lending facility	29	48	37	25	27
	69,135	43,204	45,633	43,846	40,333
Securities of residents in Sweden denominated in Swedish kronor					
	-	20,728	28,998	32,842	53,088
Other assets					
Tangible fixed assets	406	372	354	720	700
Financial assets	617	667	767	367	475
Off-balance sheet instruments	-	-	13	30	1
Accruals and deferred expenditure	4	17	5	12	-
Other assets	236	220	254	311	221
	1,263	1,276	1,393	1,440	1,397
TOTAL ASSETS	235,532	233,255	228,765	214,374	195,695

LIABILITIES AND CAPITAL

Banknotes and coins in circulation					
Banknotes	102,367	93,229	94,237	82,288	78,986
Coins	4,744	4,434	4,213	3,980	3,809
	107,111	97,663	98,450	86,268	82,795
Liabilities to monetary policy counterparties denominated in Swedish kronor					
Deposit facility	48	108	257	84	130
Fine-tuning operations	-	-	4,200	-	790
Other deposits	-	-	-	1,595	1,041
	48	108	4,457	1,679	1,961

cont. Balance Sheet, SEK million

	31-12-01	31-12-00	31-12-99	31-12-98	31-12-97
Liabilities to residents outside Sweden denominated in Swedish kronor	161	159	156	230	286
Liabilities to residents in Sweden denominated in foreign currency	2,204	1,432	2,018	-	-
Liabilities to residents outside Sweden denominated in foreign currency	3,549	4,105	5,256	3,641	322
Counterpart of SDRs allocated by the IMF	3,271	3,066	2,899	2,838	2,641
Other liabilities					
Off-balance sheet instruments	176	130	-	-	34
Accruals and deferred income	9	6	2	7	-
Liabilities on securities settlement proceeds	-	493	-	208	-
Other liabilities	2,435	603	499	781	952
	2,620	1,232	501	996	986
Balancing Account and capital					
Balancing Account	26,401	42,193	51,046	47,422	46,993
Equity capital	70,890	62,988	60,057	49,437	45,031
	97,291	105,181	111,103	96,859	92,024
Result for the year	19,277	20,309	3,925	21,863	14,680
TOTAL LIABILITIES AND CAPITAL	235,532	233,255	228,765	214,374	195,695
Profit and Loss Account, SEK million	2001	2000	1999	1998	1997
Interest income	9,197	9,572	8,347	8,781	9,991
Interest expense	-445	-548	-393	-448	-639
Net result of financial operations	11,410	12,009	-3,352	14,024	5,806
Fees and commissions income	11	12	53	121	110
Fees and commissions expense	-4	-7	-7	-11	-11
Income from equity shares	35	38	36	33	26
Other income	11	21	17	33	35
Total income	20,215	21,097	4,701	22,533	15,318
Staff costs	-279	-253	-271	-302	-270
Administrative expenses	-211	-160	-173	-168	-131
Depreciation of fixed assets	-63	-62	-69	-75	-68
Banknote and coin expenses	-332	-209	-138	-117	-164
Other expenses	-53	-104	-125	-8	-5
Total expenses	-938	-788	-776	-670	-638
Result for the year	19,277	20,309	3,925	21,863	14,680

Subsidiaries

AB Tumba Bruk/Crane AB

Profit and loss account, SEK million (parent company)

	2001	2000
Operating income	565	486
Operating expense	-562	-442
Operating profit/loss	3	44
Financial items	-3	0
Result after financial items	0	44
Appropriations	4	19
Taxes	-4	-18 ⁸
Result for the year	0	45

The result for 2001 includes an item affecting comparability amounting to SEK 9 million as a result of write-downs of property.

Balance sheet, SEK million (parent company)

	31-12-2001	31-12-2000
Fixed assets	279	271 ⁸
Current assets	255	180
Total assets	534	451
Equity capital	250	250 ⁸
Untaxed reserves	74	78
Allocations	0	0
Long-term liabilities	78	0
Current liabilities	132	123
Total equity capital and liabilities	534	451

The Board of Directors⁹

Nyberg, Lars, Chairman
 Bergstedt, Lennart, MD
 Carlsson, Hans
 Ericson, Bernt
 Eriksen, Kersti
 Rosenberg, Irma
 Storch, Marcus
 Dafthagen, Mats, employee representative
 Sundkvist, Eskil, employee representative

Managing Director⁹

Bergstedt, Lennart

AB Tumba Bruk, SE-147 82 Tumba
 Tel +46 8 578 695 00, fax +46 8 578 698 00
 website: www.tumbabruk.se

Pengar i Sverige AB

Profit and loss account, SEK million (group)

	2001	2000
Operating income	264	153
Operating expense	-331	-238
Operating profit/loss	-67	-85
Financial items	0	4
Result after financial items	-67	-81
Taxes	0	0
Minority interests	0	0
Result for the year	-67	-81

Income during the year has essentially followed the set plans. The launch of the new IT platform for cash settlement on 8 October led to considerable start-up costs, which has had a negative effect on results.

Balance sheet, SEK million (group)

	31-12-2001	31-12-2000
Fixed assets	277	280 ¹⁰
Current assets	81	102 ¹⁰
Total assets	358	382
Equity capital	247	314
Minority interests	-	0
Allocations	23	38 ¹⁰
Current liabilities	88	30
Total equity capital and liabilities	358	382

The Board of Directors¹¹

Nyberg, Lars, Chairman
 Eriksen, Kersti
 Hagberg, Lennart
 Malm, Gunnar, MD
 Söderberg, Bo
 Ehrlund, Kjell, employee representative
 Johansson, Monika, employee representative

Managing Director¹¹

Malm, Gunnar

Pengar i Sverige AB, Box 14041, SE-167 14 Bromma
 Tel +46 8 634 63 00, fax +46 8 634 63 01
 website: www.pengarisverige.se

8. This item has been changed in accordance with recommendation 9 of the Swedish Financial Accounting Standards Council, dealing with reporting of income tax.

9. During 2001.

10. This item has been revised on the basis of the balance sheet adopted.

11. During 2001.

Eskilstuna Penningsmedja AB**Balance sheet, SEK million**

	31-12-2001	31-12-2000
Current assets	0.1	-
Total assets	0.1	-
Equity capital	0.1	-
Capital	0.1	-

Board of Directors

Eriksen, Kersti, Chairman
Hasselgren, Björn

Eskilstuna Penningsmedja AB, c/o Sveriges Riksbank
Secretariat of the Executive Board, SE-103 37 Stockholm

Tumba Kulturfastigheter AB**Balance sheet, SEK million**

	31-12-2001	31-12-2000
Current assets	0.1	-
Total assets	0.1	-
Equity capital	0.1	-
Capital	0.1	-

Board of Directors

Eriksen, Kersti, Chairman
Hasselgren, Björn

Tumba Kulturfastigheter AB, c/o Sveriges Riksbank
Secretariat of the Executive Board, SE-103 37 Stockholm

Stockholm, 7 February 2002



Urban Bäckström
Governor

Lars Heikensten
First Deputy Governor

Eva Srejber
Second Deputy Governor



Villy Bergström
Deputy Governor

Lars Nyberg
Deputy Governor

Kristina Persson
Deputy Governor

Proposal to the Riksdag for the allocation of profits for 2001

The General Council of the Riksbank resolved on 15 February 2002 to submit the following proposal for the allocation of the Riksbank's profits.

The profits before appropriations for 2001 amount to SEK 19,277 million. The General Council proposes that the profits be allocated as follows:

SEK million	
Transfer to the Treasury in accordance with the	
Allocation of profits principle	7,300
To the Contingency Fund	12,053
Transfer from the Balancing Account	-76
Total (profits for the year)	19,277
Extraordinary dividend to the Treasury	20,000
Transfer from the Contingency Fund	-20,000
Total transfer and extra dividend	27,300

The proposal has been calculated on the basis of guidelines established by the General Council in 1988. The allocation of profits principle entails 80 per cent of a five-year average of the Riksbank's profits, excluding exchange rate effects, being distributed annually. The proposed extraordinary dividend is based on the General Council's assessment of how large a capital the Riksbank should hold.

In its proposal for the allocation of profits for 2000 the General Council proposed that SEK 8.2 billion should be transferred to the Treasury in accordance with the established guidelines and, in addition, that the Riksbank should make a one-off payment of SEK 20 billion. As a background to the proposed one-off dividend the General Council discussed the size of the capital holding of the Riksbank and drew attention to the following:

"The question of how large a capital the Riksbank should hold concerns a difficult balance, where the need for stability and credibility in the Riksbank's operations should carry the greatest weight."

In its report approved by the Riksdag (2000/01:FiU23), the Riksdag Finance Committee stated that the Riksbank was considered to have a good balance in financial strength, both from an international perspective and in the light of the bank's monetary and exchange rate policy commitments. The credit risks in the bank's operations were assessed by the Committee to be lower than they were ten

years ago. Given this, the Committee considered there to be scope for the Riksbank to "make a further extraordinary transfer to the Treasury" the following year. The Committee shared the opinion of the General Council that any consideration of the size of the capital to be held by the Riksbank should ensure that the Riksbank's need for stability and credibility was satisfied.

The Committee further stated that "taking this into account, it should be possible for the Riksbank to make a transfer to the Treasury next year in the order of SEK 20 billion as an extraordinary dividend in addition to the allocation of profits made in the usual manner". According to the Committee, the General Council should work out a proposal for a final level in the light of the circumstances prevailing at this point in time. Following this, the Committee considered that a well-balanced, long-term level of capital would have been achieved and that there was no motivation to reconsider the principles for the allocation of profits, which should be retained until further notice.

In preparation for the General Council's decision on a proposal for the allocation of profits, the General Council requested that the Executive Board of the Riksbank should update its assessment of the Riksbank's balance sheet and its capital requirement. The Executive Board reported its assessment to the General Council in February 2002.

The Executive Board proposed that the Riksbank's total capital holding should in future be reported in the balance sheet according to new principles. It was proposed that some of the capital should be allocated to a fund that would guarantee the Riksbank sufficient income to meet the bank's normal operating costs, excluding the cost of printing banknotes and coins. It was proposed that a further part of the capital be allocated to guarantee the Riksbank's ability to meet operating losses, primarily related to the task of providing emergency liquidity assistance in the event of financial disturbances. Other parts of the capital would be allocated to meet the unrealised changes in value that regularly arise in the Riksbank's assets, based on the market value of the assets.

The profits that remain after allocations have been made for unrealised gains and to real value hedge the Riksbank's allocations would then be distributable earnings. Naturally, it would be possible to continue to average the amounts to be

transferred, for example over a five-year period.

The Executive Board also proposed that the Sveriges Riksbank Act be supplemented with provisions regarding the different allocations mentioned above and with a protective clause preventing any allocation of profits that might risk overriding the Riksbank's possibility to independently carry out the tasks imposed on it by law.

The conclusion of the Executive Board with regard to consolidation and the possibilities for further dividend payments to the central government is that the size of the Riksbank's capital is appropriate, but that it might be possible to make a further transfer in the order of SEK 0–20 billion.

The General Council forwarded the report of the Executive Board to the Riksdag for information. According to the General Council, the question of statutory regulation of the Riksbank's balance sheet and allocation of profits is not relevant unless Sweden joins the EMU.

Pursuant to Chapter 10, Article 3, of the Sveriges Riksbank Act (1988:1385), the General Council has received a report from the Executive Board for the financial year 2001. The General Council's Audit Unit has examined the basis for calculating the proposal for the allocation of profits. The Audit Unit found no fault with this.

The General Council considers, in the light of the total report from the Executive Board, that there is scope for an extraordinary dividend of SEK 20 billion to be transferred to the Treasury. It is herewith assumed that the allocation of profits principle applied since 1988 will be applied this year and in following years.

Johan Gernandt, Mats Odell, Ingegerd Troedsson and Peter Egardt entered a reservation against the decision with the comment:

“We hereby enter a reservation against the proposal of the majority to make an extra transfer to the Treasury of SEK 20 billion once again. We supported the additional dividend of SEK 20 billion last year after careful consideration. A given condition then was that this was a one-off measure, and that the allocation of income principle that had applied from 1988 would continue to be applied in future, without any additional withdrawals.

The management of the Riksbank has made a thorough survey, at the request of the General Council, of the capital requirement that would enable the Riksbank to meet its monetary and foreign exchange policy obligations and its task of being able to provide emergency liquidity assistance in the event of a threatened disturbance in the payment system. A united Executive Board concluded that ‘if the cur-

rent level of preparedness is to be maintained, no additional transfer should be made’.

The increasing level of economic internationalisation has strengthened the links between the national financial systems, which involves new risks. The many financial problems that have arisen in recent years have provided a clear illustration of this. This background alone would advise that the best thing is not to settle for the lowest level of the SEK 25–45 billion that the Executive Board estimates as a necessary capital requirement. The central government has only one reserve to which it can turn in case of emergency and this is at the Riksbank.

The legislation regarding the Riksbank is aimed at safeguarding a long-term independence for the Riksbank, including its financial position, which enables the bank to carry out, in an independent and credible manner, the tasks stipulated in the Sveriges Riksbank Act. It is the task of the General Council to examine the question of the allocation of profits on the basis of these overall aims. We therefore consider that the General Council is unable to present proposals for the allocation of the Riksbank's income and capital that would involve bringing into question the independence of the Riksbank. The overall aims, as established in the Instrument of Government and the Sveriges Riksbank Act, are not compatible with a further additional transfer of SEK 20 billion.

Another reason why the proposal of an additional transfer should be rejected is the endeavour to achieve freedom of action with regard to Sweden's possible participation in the European Monetary Union. A lot could happen during the normal two-year trial period in ERM2, which according to the regulations would precede Sweden's entry into EMU, and which would require that the krona be held at a stable level during this time. This would need a larger, rather than a smaller, foreign currency reserve.

Therefore, the additional transfer of SEK 20 billion should not be implemented.

The Executive Board has also proposed a statutory regulation with regard to reservations and allocations, as well as a protective provision that prevents an allocation of income that would put at risk the Riksbank's possibilities to carry out its legally-imposed tasks in an independent manner. A majority on the General Council does not wish to bring up this issue yet. We consider, particularly in the light of the majority's actions with regard to an additional transfer from the Riksbank this year, that such a regulation in law should be contemplated now.”

Auditors' report

According to the Act on the auditing of the Riksdag's administration and authorities subject to the Riksdag, etc. (1988:46, most recently amended as 2000:426), the Parliamentary Auditors shall, at the end of each financial year, scrutinise the condition, governance and administration of the Riksbank. An audit report shall be submitted to the Riksdag. This report shall clarify the extent and approach of the auditors' examination and conclude with a statement as to whether the auditors consider that the Executive Board and the General Council should be granted discharge from liability. The auditors shall also issue an opinion on the Riksbank's profit and loss account and balance sheet.

In accordance with Chapter 10, Article 3, of the Sveriges Riksbank Act (1988:1385), the Executive Board has submitted the accounts for 2001 (report 2001/02:RB1). The General Council has made a recommendation on the allocation of the Riksbank's profits.

The examination carried out

As in previous years, we have been assisted by KPMG Bohlins AB in the examination of the Riksbank's accounts and administration for 2001. Authorised public accountant Roland Nilsson has been in charge of this examination. The result of the examination has been made available to us in the enclosed report. As stated in the report, the auditors recommend that the profit and loss account and balance sheet for 2001 be adopted.

When dealing with this matter, we have also examined a more detailed report of the examination of the Riksbank's accounts for 2001. This report, which we have submitted to the Riksdag's Finance Committee, has been drawn up jointly by the Riksbank's Internal Auditing Department and KPMG. According to the report, the annual accounts are in all essential true and fair.

In the separate report, the auditors take up the most important points of discussion arising from the audit. The examination of the Riksbank's administration and accounts for 2001 has not otherwise given us any cause for special qualification.

Recommendations

With reference to what has been stated, we recommend with regard to the Riksbank's activities that

1. the General Council of the Riksbank be granted discharge

- from liability for operations during 2001,
2. that the Executive Board of the Riksbank be granted discharge from liability for administration of the Riksbank during 2001 and that
3. the Riksdag adopt the Riksbank's balance sheet and profit and loss account for 2001.

This matter has been dealt with by the auditors in plenum. The following auditors have participated in the decision: Ingemar Josefsson (s), Anders G Högmark (m), Per Rosengren (v), Bengt Silfverstrand (s), Anita Jönsson (s), Kenneth Lantz (kd), Margit Gennser (m), Hans Stenberg (s), Ann-Marie Fagerström (s), Ingvar Eriksson (m), Sten Lundström (v) and Ann-Kristine Johansson (s).

In the final consideration of the matter, administrative director Åke Dahlberg and chief investigator Stig Tegle (person reporting) were also in attendance.

Stockholm, 7 March 2002

On behalf of the Parliamentary Auditors

Ingemar Josefsson *Stig Tegle*

To the Parliamentary Auditors

Examination report for Sveriges Riksbank 2001

The Parliamentary Auditors have appointed KPMG as expert in the field of external audit to assist in the examination of Sveriges Riksbank. Our report on the examination of Sveriges Riksbank's accounts and administration for 2001 is as follows.

We have examined the Riksbank's Directors' Report and the accounts for 2001. We have further examined the audit reports of the Internal Auditing Department and otherwise obtained an opinion of the examination measures undertaken by the internal audit with regard to current accounts and the annual accounts. The Internal Auditing Department at the Riksbank and KPMG have submitted a joint report dated 31 January 2002 on the examination made of the accounts for 2001 and other observations from the year's examination. The report has been sent separately.

We recommend that the profit and loss account and balance sheet be adopted.

Stockholm, 11 February 2002

KPMG Bohlins AB

Roland Nilsson

GLOSSARY

Asset prices Price developments mainly on shares and property.

Balance of payments The statistical reporting of a country's external economic transactions.

BIS The Bank for International Settlements in Basel is "the central banks' bank". Its members currently include 49 central banks, including most of the European countries. Its board of governors consists of the G10 countries. At present, the Governor of the Riksbank, Urban Bäckström, is President of the BIS.

Counterparty The other party in a financial transaction.

ECB The European Central Bank in Frankfurt. The bank was established on 1 June 1998 and is the joint central bank for the countries fully participating in the third stage of EMU.

Econometric models Econometric models use historical connections, calculated by means of statistics, to illustrate the connections between different parts of the economy.

EFC The Economic and Financial Committee of the EU, which provides advice on economic policy issues to the ECOFIN Council.

EMU Economic and Monetary Union. The third and final stage began on 1 January 1999, when e.g. the exchange rates between the currencies in the twelve participating countries were fixed irrevocably and responsibility for monetary policy was transferred from these countries to joint decision-making in the ECB Council.

ESCB The European System of Central Banks consists of the ECB and the 15 national central banks in the EU.

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

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

Foreign currency reserve A reserve of foreign currency used when purchasing and selling Swedish krona. Listed on the asset side of the Riksbank's balance sheet.

G10 The Group of Ten, rests upon a loan agreement entered into by ten countries with the IMF in 1961, in order to supply the latter with liquidity under exceptional circumstances. The Group has served primarily as an investigative body on issues regarding the international financial system. The Riksbank, together with the Ministry of Finance, represents Sweden in this co-operation. A special co-operation has also been developed between the central banks in G10, including a number of committees working in different ways to strengthen international financial stability.

IMF The International Monetary Fund was formed in 1944 to promote trade and growth by encouraging international monetary co-operation and financial stability. The organisation currently has 183 member countries and the Riksbank serves as the contact body for the IMF in Sweden.

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

Intervention When a central bank buys or sells currency on the open market, usually with the aim of influencing its own country's exchange rate.

Long-term interest rate Interest on loans with a longer time to maturity than one year.

Money market A market consisting of banks and other financial institutions that receive short-term deposits and grant short-term loans – for a period of one day up to one year. (The capital market is aimed at medium and long-term credit).

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

Official discount rate A reference rate that reflects the general interest rate situation and is invoked, e.g., in the Interest Act's provisions on penalty interest. With effect from 1 July 2000, the Swedish National Debt Office took over from the Riksbank the task of establishing and publishing the official discount rate.

Payment system The infrastructure used to implement payments.

Price stability A fixed value for money. According to the Riksbank's definition, price stability means that CPI inflation is limited to 2 per cent ± 1 percentage point.

Repo A transaction where the Riksbank lends money to the banks through what are known as monetary policy repos. A monetary policy repurchase agreement involves the Riksbank supplying liquidity by buying securities from the banks and at the same time contracting to sell back the securities to the banks after a certain period of time (among market operators this is known as a reversed repo). The Riksbank then receives its money back and the securities are returned to their original owners.

Repo rate The interest rate the banks have to pay (or receive) when borrowing (or depositing) money from the Riksbank for a week.

RIX The Riksbank's system for clearing and settlement of payments. It settles payments both in krona (K-RIX) and in euro (E-RIX) in accordance with the principle of gross real-time settlement. RIX is attached to TARGET (see below).

Settlement The meeting of an obligation when a security or money is transferred from one party to another. The transfer is often merely an accounting measure.

Short-term interest rate Interest on loans with a shorter time to maturity than one year.

Steering interest rates The interest rates the Riksbank sets itself: the deposit rate, the lending rate and the repo rate. The repo rate is the most important steering interest rate.

TARGET The joint payment system within the EU to which member countries' national payment systems are connected. It links together 16 central banks and approximately 5,000 commercial banks.

PUBLICATIONS

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

The Financial Stability Report is issued twice a year. This report describes the Riksbank's views of developments in the financial system and what they involve for stability. The aim is also to stimulate a discussion on issues regarding the stability of the payment system.

Sveriges Riksbank Economic Review is issued four times a year. This quarterly journal contains articles on subjects in the Riksbank's field of operations.

The Annual Report provides an account of monetary and foreign exchange policy during the past year. It contains the Riksbank's annual accounts, including a directors' report, balance sheet and profit and loss account.

The Statistical Yearbook is issued once a year. It contains statistics on the Riksbank, financial markets, the payment system, the balance of payments and the foreign exchange market.

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

Publications from the European Central Bank, ECB.

Information material on, e.g., the Riksbank, Swedish banknotes and coins and the euro.

All of the Riksbank's publications are presented on its website (www.riksbank.se). Most of these publications are available in both Swedish and English. The most simple means of ordering them is through the order function on the website. The Riksbank also publishes press releases, speeches, articles and minutes from meetings of the Executive Board and the General Council on its website.



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