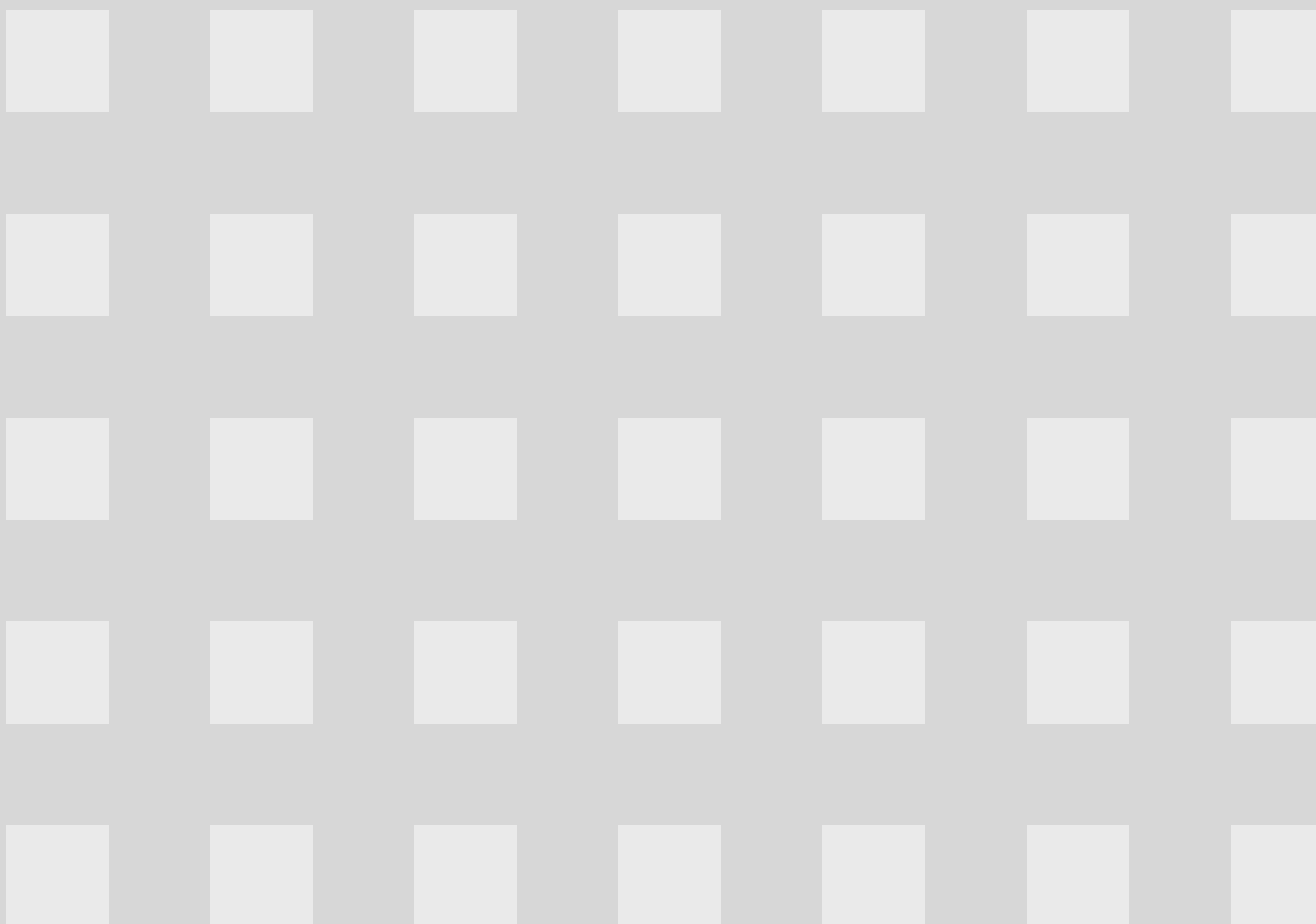




# Sveriges Riksbank

ANNUAL REPORT 2000





**The Riksbank answers enquiries.** The Communications Department receives a large number of telephone calls every day with enquiries about the Riksbank's operations. Most receive a direct reply. Many of the enquiries concern interest rates and statistics.

**The Riksbank holds speeches.** The members of the Executive Board hold a number of speeches at various locations throughout Sweden every year, in order to provide information regarding the Riksbank's assessment of the economy or to give their views on current topics. This also provides an opportunity for a dialogue on monetary policy issues.



# Contents

## IMPORTANT DATES IN 2001

Executive Board monetary policy meeting	1 February
Executive Board monetary policy meeting	26 March
<i>Inflation Report</i> no. 1 published	27 March
The Governor attends the Riksdag Finance Committee hearing	27 March
Executive Board monetary policy meeting	26 April
<i>Financial Stability Report</i> no. 1 published	May
Executive Board monetary policy meeting	30 May
<i>Inflation Report</i> no. 2 published	31 May
Executive Board monetary policy meeting	5 July
Executive Board monetary policy meeting	23 August
<i>Financial Stability Report</i> no. 2 published	November
<i>Inflation Report</i> no. 3 published	11 October
<i>Inflation Report</i> no. 4 published	6 December

The dates for the monetary policy meetings in the autumn have not yet been confirmed. Information on monetary policy decisions is published at 9.30 am on the day following a monetary policy meeting.

## THIS YEAR'S PHOTO THEME

Confidence from all sides – the general public, the Riksdag, the financial markets, the media – is essential to enable the Riksbank to perform its tasks as Sweden's central bank. External communication, which can take many different forms, is the photographic theme in this year's annual report.

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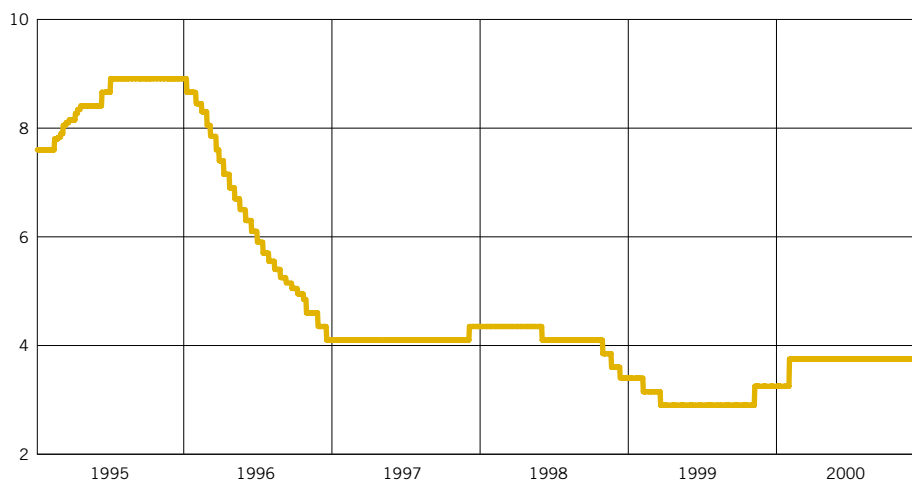
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## The year in figures

Key figures	2000	1999	1998
At the end of the year:			
Result for the year (SEK billion)	20.3	3.9	21.9
Proposed transfer to the Treasury (SEK billion)	28.2*	9.8	7.6
Gold and foreign currency reserve (SEK billion)	168	153	136
Number of employees	469	466	754
The repo rate (per cent)			
Short-term rate (three months, SSVX; per cent)	4.09	3.51	3.36
Long-term rate (10-year treasury bonds; per cent)	4.86	5.73	4.17
On average			
GDP (percentage change)	3.6	3.8	2.9
Unemployment (per cent)	4.7	5.6	6.5
CPI (percentage change)	1.3	0.3	0.4
UNDIX (percentage change)	1.4	1.4	0.9

\* This amount consists of SEK 8.2 billion from the net revenue for 2000 and SEK 20 billion as a one-off dividend payment.

### The repo rate, per cent



The repo rate was raised to 4.0 per cent in 2000, in the light of the strong growth that increased the risk of inflationary pressure in 2001 and 2002. The increase was limited, both from a backward domestic perspective and in an international perspective.



## Significant events 2000

- The Riksbank decides on 4 February to raise the repo rate from 3.25 per cent to 3.75 per cent with effect from 9 February.
- The bank decides on 7 December to raise the repo rate from 3.75 to 4 per cent with effect from 13 December.
- Four Inflation Reports and two Financial Stability Reports are published during the year, in accordance with the bank's policy. The members of the Executive Board give more than 100 speeches in public. The bank's analyses and points of view receive considerable attention in the media and in the economic debate.
- The Riksbank reorganises to focus its operations more clearly on the objectives and tasks stated in the Sveriges Riksbank Act.
- Kerstin Hessius announces that she will not be standing for election for a new mandate period on the Executive Board. In January 2001, Kristina Persson is appointed her successor.
- The Riksbank decides that the 100 krona and 500 kronor banknotes will be upgraded and gradually replaced to make them more difficult to counterfeit. This change will be implemented during autumn 2001.
- The Riksbank decides that the deposit and lending rates (the interest rate corridor) will no longer comprise an instrument for signalling the direction of monetary policy. The deposit and lending rates will lie symmetrically around the repo rate and will be changed when the repo rate changes. The span of the interest rate corridor will be 150 interest points until further notice.
- The Riksbank's net revenue was SEK 20.3 billion. The General Council proposes to the Riksdag that SEK 8.2 billion of the net revenue, plus a further SEK 20 billion in the form of a one-off dividend, be transferred to the Treasury.



# Good economic growth in Sweden with low inflation rate

**A high growth rate, increased employment and a low inflation rate were the hallmarks of 2000. There were also clearer signs that the inflationary tendencies in the Swedish economy had declined. The internal work within the Riksbank was mainly marked by a major reorganisation, which was aimed at making our operations more effective and adapting the organisation of the bank to changes in our surrounding world.**

Many of us heaved a sigh of relief when it became clear that the transition to a new millennium had occurred with no major incidents. Prior to this, the Riksbank had worked intensively on ensuring that both the payment system and our IT system would function without any disruptions. Many employees were forced to see in the New Year at the Riksbank – but the work paid off. On New Year's Day we issued the first press release of the year, with the good news that the new millennium had arrived without any disruptions.

Once we had received this reassuring message, we felt that after a number of years of major upheavals that had affected the external conditions for the Riksbank, it was time to look inwards, towards our own organisation.

## **New organisation**

A quiet spring gave us the opportunity to consolidate our operations, to enable us to meet future challenges in a better way and to create a clearer focus on the objectives and tasks stipulated in the Sveriges Riksbank Act. One result of this work was a new, more efficient organisation, which was launched on 1 June. The reactions to this have been positive and I really admire the way Riksbank employees have so quickly found their roles in this new organisation.

The reorganisation has involved in many cases a review of how the work is done, as well as establishing intellectual frameworks and considering how various processes could be made more efficient. This course has permeated much of our activities during the year; from the monetary policy thought processes to the administrative work.

The Riksbank is a typical knowledge organisation with a number of different tasks. Our ambition is to be one of the lead-

ing central banks in the world. However, to achieve this we need to be able to attract highly competent employees. The Riksbank has therefore worked hard to create an attractive work place. Our strategy appears to have been successful so far. The Swedish version of the Universum Graduate Survey, which rates the most popular work places in Sweden, shows that the Riksbank has moved up seven places this year, attaining 14<sup>th</sup> place.

During 2000 we have also begun a mentor programme for women managers. The aim of this is to get more women interested in managerial posts and thus broaden the recruitment base for appointing new managers, which I think is an important issue.

## **Openness is important**

On 1 January 1999 the new Sveriges Riksbank Act came into force. This entailed increased independence and a responsibility by law for price stability. The Riksbank gained a new decision-making body – the Executive Board – with six full-time members.

Since the new Executive Board took up appointment, we have endeavoured to find methods of working that will meet the requirements that can and should be made of us. One of these requirements is for increased openness. As part of this, the Riksbank decided during the year to hold some of the Executive Board meetings outside of Stockholm. This provides the Board with an opportunity to visit different parts of Sweden together and to discuss economic developments with representatives of trade and industry and society as a whole in the different regions.

It is with great satisfaction that I note that the debate on the independence of the Riksbank has become more harmonious. Independence appears to have been accepted and the discussion is now aimed more at factual issues. During the past year, there have been many articles written as to how we on the Executive Board are not in agreement when we make decisions regarding interest rates. This has sometimes been depicted as a negative thing. However, that is not the case – it is definitely a positive thing that all of the members' points of view can be aired and that this is documented and published. One should also remember that there is unity over the fundamental target



Governor of the Riksbank Urban Bäckström

and the intellectual framework. I am aware that this is a new way of working for a public authority, but I believe it is something we should safeguard and be proud of.

### **The economy and financial stability**

The year 2000 was a good year for the economy. The Swedish growth rate was high compared with previous years – around 4 per cent. This has led to unemployment falling and employment increasing at a rapid rate. In addition, the inflation rate has remained at a moderate level, despite the rapid growth rate. CPI inflation lay at just under the target level of 2 per cent during the year.

At the beginning of the year, the Riksbank raised its steering interest rate by 0.5 percentage points to 3.75 per cent. This was to ensure continued strong growth and a sustainable good economy. Thereafter we chose, despite strong criticism, to wait to make further raises until the end of the year. This was at the same time as a number of other central banks around the world were raising their steering rates.

The signs that inflationary tendencies in the Swedish economy have declined became more evident during 2000. At the same time, we could see that the economy was still moving towards a situation where there was a risk that the production resources would become more strained. We therefore decided to raise the repo rate by 0.25 percentage points, to 4.0 per cent,

at the end of the year, in order to adapt demand to a level sustainable to the Swedish economy in the long term, without causing price pressure.

Despite considerable turbulence on the financial markets in 2000, the Swedish financial sector has shown few signs of any imbalances that could threaten the stability of the Swedish payment system. However, the Riksbank has identified an increased risk of spread effects between the banks, as a result of their increasing exposure to one another. The Riksbank has now begun a project together with Finansinspektionen (the Swedish Financial Supervisory Authority) to attain a clearer picture of the size of this risk.

In conclusion, I would like to take this opportunity to thank my colleagues on the Executive Board and the members of the General Council, as well as the staff of the Riksbank as a whole, for good work in 2000. I would also like to thank our departing Board Member Kerstin Hessius for her sterling work and at the same time, to welcome the new Board Member, Kristina Persson, to the Riksbank.

Stockholm, February 2001

A handwritten signature in dark ink, appearing to read 'Urban Bäckström'. The signature is fluid and cursive.

Urban Bäckström

# This is the Riksbank

**The Riksbank's operations are aimed at safeguarding a low inflation rate and financial stability. This provides the right conditions for a high and stable rate of real growth in the economy.**

The Riksbank is Sweden's central bank and is responsible for Swedish monetary policy. Its tasks include safeguarding both the value of our money and confidence in the banking and payment systems. The Riksbank is therefore also one of Sweden's primary institutes for the analysis of monetary policy and financial stability.

The Riksbank's main tool for safeguarding the value of money is the repo rate, which influences the way the banks set their interest rates. The Riksbank works to keep the inflation rate at 2 per cent with a deviation interval of  $\pm 1$  percentage point. If there is a risk that inflation will be higher or lower than this, the Riksbank's Executive Board may decide to raise or lower the repo rate in order to slow down or stimulate the Swedish economy.

The Riksbank is responsible, together with Finansinspektionen (the Financial Supervisory Authority) for monitoring the Swedish banking and payment systems. The Riksbank therefore makes regular analyses of the functioning of the banking and financial markets. Thus, the Riksbank can help ensure that a build up of risk does not have serious consequences, mainly through drawing the attention of the banks and authorities to potential risks.

The Riksbank is an authority under the Riksdag (the Swedish parliament) and is managed by an Executive Board, which consists of a Governor and five deputy governors. These are appointed for a period of six years.

Openness and transparency are important to an independent central bank in a democratic society. The Riksbank therefore openly reports its analyses and forecasts, as well as its discussions and decisions. It is important for the credibility of the bank's assessments that both the conclusions and recommendations are made public so that they can be discussed and criticised.

## Analysis

The Riksbank has built up a skilled, internationally renowned analysis operation to enable it to assess socio-economic developments and base its decisions on a solid foundation. There is a development towards a closer integration between the two fields of analysis.



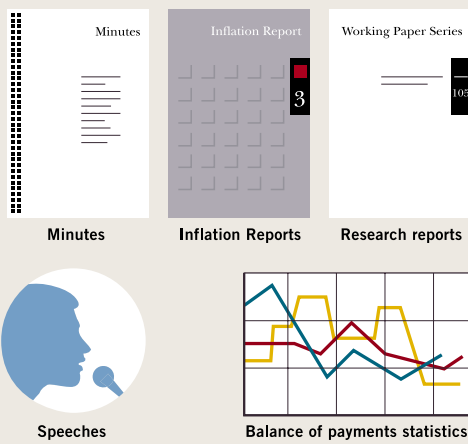
MONETARY  
POLICY ANALYSIS

FINANCIAL  
STABILITY ANALYSIS



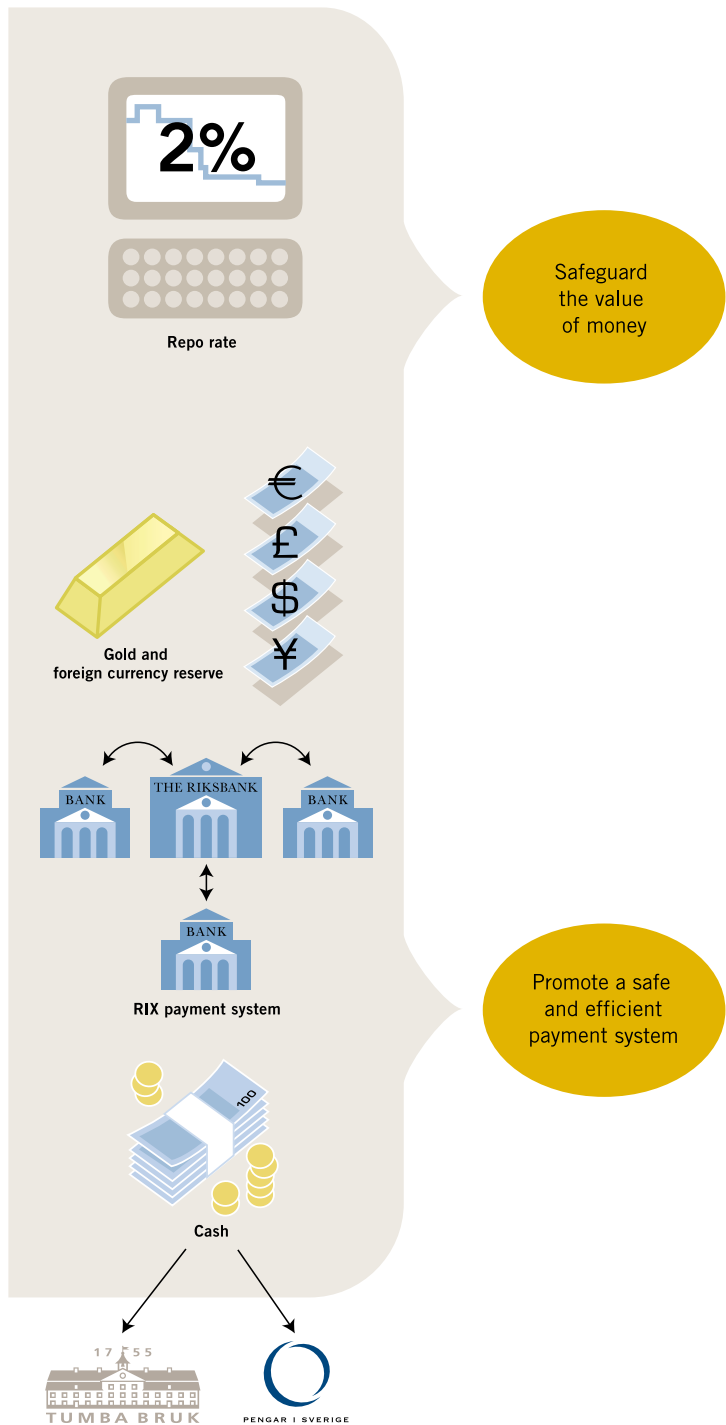
## Presentation

Motives and backgrounds to monetary decisions are published and commented on regularly, in minutes of meetings, reports and speeches by members of the Executive Board. Internally produced statistics are used by the Riksbank as a basis for monetary policy and for monitoring the financial system. They also have external users, such as Statistics Sweden.



## Implementation

The Riksbank has access to a number of operational means to effect its policies and achieve its main objectives. The repo rate is the most important monetary policy instrument. The Riksbank manages the gold and foreign currency reserve for foreign exchange policy purposes. The Riksbank also operates the RIX system for large interbank payments and is responsible for Sweden's supply of banknotes and coins.





**The Riksbank presents its assessment.**

The Riksbank's Inflation Report, containing its assessment of inflationary trends for the coming two years, is published four times a year. It is presented at a press conference, where the Riksbank answers questions from Swedish and foreign journalists.

## Favourable development in inflation

During the year 2000, the Swedish economy showed strong growth, a large increase in employment and a low inflation rate. The Riksbank chose to raise its key interest rate on two occasions, in February and December, in order to maintain price stability and thus contribute to a long-term sustainable development. At the end of the year, the key interest rate, the repo rate, was 4.0 per cent.

### Inflation below 2 per cent all year

The annual average inflation rate amounted to 1.3 per cent when measured as CPI inflation and 1.4 per cent when measured as the underlying inflation rate, UND1X. This means that inflation fell below the set price stability target of 2 per cent, but remained within the deviation interval of  $\pm 1$  percentage point.<sup>1</sup> At the beginning of the year the consumer price index (CPI) was influenced by lower mortgage interest costs, which resulted in a lower rate of increase for CPI inflation than for UND1X inflation. The difference between the two indices declined gradually during the spring and towards the end of the year the twelve-monthly figures for CPI and UND1X usually coincided.

The underlying inflation rate, UND1X, showed a relatively stable development during 2000, while its sub-components varied. Prices on imported goods rose considerably, while the rate of price increase on domestic goods and services was slow. The price rise for imported goods was mainly the result of continued price rises on crude oil and a weak exchange rate against the US dollar – the currency in which many raw materials are priced. There was a slight fall in the price of crude oil towards the end of the year, but the average price in 2000 was still approximately 60 per cent higher than in 1999.

The high price of crude oil and rising prices on other raw materials had a limited impact on prices for processed goods, partly due to stiff international competition. The rate of price increase for processed Swedish consumer goods rose slightly and during the last few months of the year amounted to approximately 2 per cent.

1. For an assessment of the monetary policy pursued during previous years, please see the written account presented by the Riksbank to the Riksdag's Finance Committee twice a year. See also the Riksbank's Inflation Reports, which are issued four times a year.

Prices for services usually rise more rapidly than prices on goods, partly because productivity development and competitive pressure are usually lower in the production of services than in goods manufacturing. In recent years, however, prices for services have slowed down. This trend continued during 2000, when price increases on services were lower than those on goods. The main reason for this development is that an increasingly large part of the services sector is being exposed to greater competition. This applies in particular to the electricity and telecom markets. Prices in these two fields fell on average by 4 per cent and 9 per cent respectively during 2000.

The Swedish inflation rate was lower than that in most EU countries. The average inflation rate according to HICP was 1.3 per cent in Sweden, while the average for the euro zone was 2.3 per cent.

According to various surveys carried out during the year, inflation expectations remained well in line with the inflation target throughout 2000, following a rise in 1999. Towards the end of the year, the expected inflation rate for one year ahead increased slightly, while expectations for the longer term altered only marginally. These stable expectations helped subdue any inflationary impulses from rising capacity utilisation.

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### INDEXES OF INFLATION

(All calculated monthly by Statistics Sweden)

**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 (UNDINHX)** = 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 some expenditure not currently contained in CPI, such as childcare charges.

## The monetary policy target

**According to the 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.

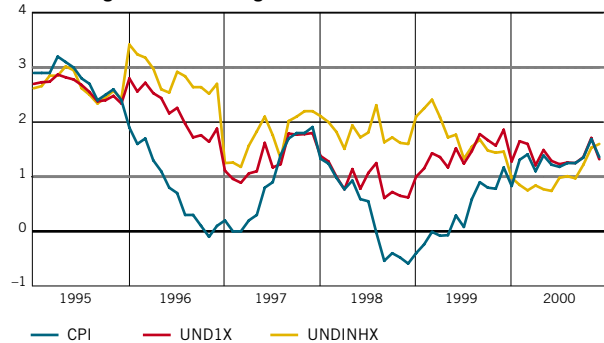
**Monetary policy can be described** in simple terms with the aid of a rule of thumb; if the Riksbank’s forecasts for inflation one to two years ahead indicate that the rate will deviate from the target, then the repo rate is adjusted accordingly.

**However, the rule of thumb is not automatic.** Monetary policy can have an impact on inflation both during the period before and after one to two years ahead. It may therefore be necessary to also take into account other periods outside of this interval when making assessments.

**The Riksbank has also stated two specific reasons** for deviating from the rule of thumb. One is that consumer prices one to two years ahead can be affected by factors that are not deemed to have a durable effect on inflation. The Riksbank may decide to disregard temporary effects on inflation of this nature. If this occurs, it will be made clear when the decision on the repo rate is taken. In practice, monetary policy has been based on the underlying inflation rate, UNDI<sub>X</sub>, during 2000.

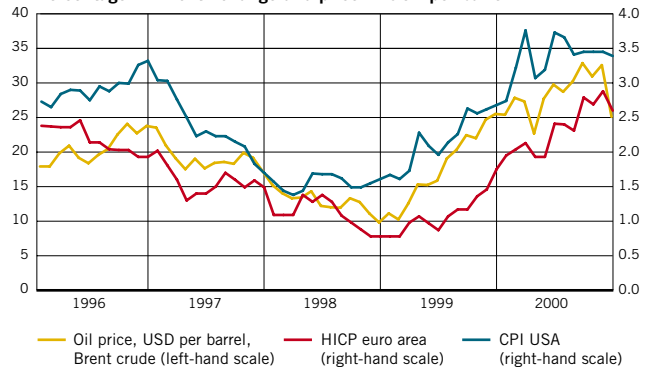
Another reason for departing from the rule of thumb is that a return to the targeted rate in one to two years’ time could be costly for the real economy. There may then be good reason to aim for a more gradual return of inflation to the target level.

**Diagram 1. CPI and underlying inflation.**  
Percentage 12-month change



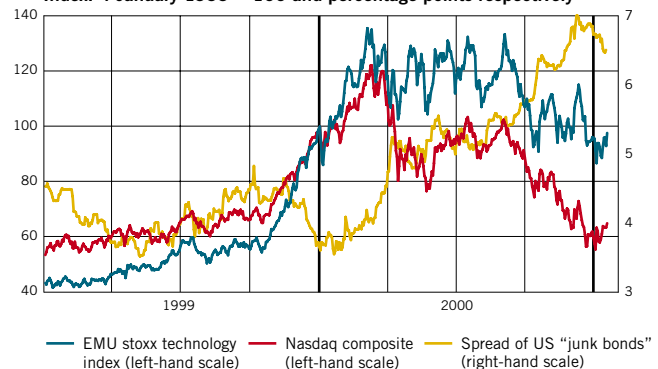
Note. The grey horizontal lines show the Riksbank’s deviation interval for changes in CPI.  
Source: Statistics Sweden.

**Diagram 2. Inflation in the USA and the euro area plus oil prices.**  
Percentage 12-month change and price in USD per barrel



Sources: Bureau of Labor Statistics, Eurostat and Hanson & Partners AB.

**Diagram 3. International equity indices and the interest rate difference between 10-year US “junk bonds” and treasury bonds.**  
Index: 4 January 1999 = 100 and percentage points respectively



Sources: Bloomberg and Hanson & Partners AB.



### Strong international growth but with a question mark towards the end of the year

The year 2000 was a good year for the global economy, with growth rates in Japan, Europe and the USA showing an increase compared with 1999. The year also proved to be the ninth year of unbroken growth for the USA.

Inflation rates in most of the major countries rose gradually, but price rises were still limited. One contributory factor to the increase was rising oil prices. The underlying inflation rates in the euro area and especially in the USA also rose.

Given the increasing inflationary pressure and strong growth, monetary policy continued to be tightened up in several important OECD countries during the early part of the year. This applied to the USA and UK, where the central banks raised their key rates to 6.5 per cent and 6 per cent respectively. The largest change in a key rate was made by the ECB<sup>2</sup>, which gradually raised its key rate from 3 to 4.75 per cent during 2000.

During the spring, equity prices in many countries reached a peak level, after several years of price increases. The following decline was particularly pronounced on stock exchanges with a large percentage of IT-related shares. This reduced financing opportunities for investments with a high risk content. Interest rate differences between corporate bonds and treasury bonds were also widened. During the autumn, this development, along with high oil prices, contributed to increased uncertainty regarding the international economic climate.

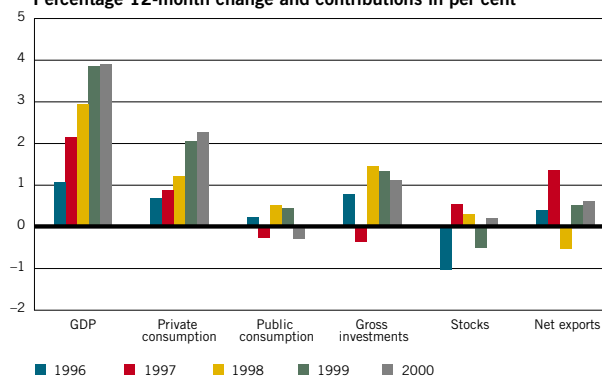
This uncertainty was particularly apparent in the USA, as a result of the imbalances that had been built up over a long time in the US economy, above all in the form of a very low level of domestic savings that resulted in a large deficit on the current account. A clear slowdown could be noted in the USA during the autumn. It is also possible that the euro area's peak growth level was reached during 2000. Towards the end of the year, uncertainty regarding the sustainability of the Japanese recovery also increased.

Towards the end of the year, growth within the OECD area was estimated to have amounted to approximately 4 per cent – the highest growth rate in over a decade. This also involves a significantly stronger growth rate than the just under 3 per cent expected at the beginning of the year.

The US dollar strengthened further against the euro during the year, partly due to the large financial flows from the euro

2. At the beginning of 1999, the European Central Bank (ECB) took over responsibility for monetary policy in the euro area. The primary target for monetary policy in EMU is price stability, defined as an annual increase in consumer prices of below 2 per cent, measured against the HICP index, in the euro area.

Diagram 4. GDP growth and contributions to GDP growth. Percentage 12-month change and contributions in per cent



Note. Forecast for 2000 in accordance with the Inflation Report 4/2000. Sources: Statistics Sweden and the Riksbank.

countries to the USA. A higher growth rate over several years and a higher interest rate level probably contributed to investors perceiving the USA as a more attractive location for capital investments than the euro area. Large investments in new information technology, as well as well-developed labour, product and capital markets appear to have contributed to the strong development in the USA. However, as the US economy began to slow down towards the end of the year, the market's perspective of developments in the USA changed and the euro gradually strengthened.

From the middle of the year until the end of September, the Swedish krona fell approximately 8 per cent, measured in terms of TCW, mainly due to a weakening against the dollar. This coincided with the euro's weakening against the dollar. During the autumn the krona also weakened slightly against the euro, which may have been due to financial unease, portfolio investments in connection with the selection of premium pension investments and the short-term interest rate difference between Sweden and the euro area.

The improved global economy contributed to a continued rise in international long-term interest rates at the beginning of the year. However, February saw the beginning of a gradual decline and the interest rate for 10-year treasury bond loans fell by approximately 0.5 percentage points in the euro area, and around 1 percentage point in the USA, during the course of 2000.

### High growth and lower unemployment

A stable and strong rise, mainly characterised by strong domestic demand, dominated Swedish economic activity in 2000. There was a slight slowdown towards the end of the year, partly due to unease on the financial markets.



Household consumption continued to rise considerably during the year. In particular, there was a large increase in the consumption of durable goods. A number of favourable factors contributed to the rise in consumption, including increased employment, a large growth in real wages and low interest rates. Household wealth was also considerably strengthened, mainly as a result of rising prices for shares and houses. Households were also confident about their own economic situation and that of Sweden.

The upswing in investment continued during 2000. Industrial activity was strong, although some slowdown from the previous high level could be noted towards the end of the year. Industrial investment continued to rise, stimulated by a high level of capacity utilisation and good profitability. Residential investment also continued to rise, albeit from a low starting point. The total number of housing starts rose by approximately 20 per cent, compared with 1999, and most of this increase was from construction in metropolitan regions.

The strong increase in employment that began in early 1998 accelerated during 2000. The expansion came mainly in the private and public services sector. Open unemployment declined rapidly, particularly during the spring, and towards the end of the year it fell below 4 per cent of the labour force. At the same time, signs of recruitment problems began to show on the labour market, with considerable disparity between demand and supply of labour from one region to another.

Labour productivity is estimated to have increased by 2 per cent during 2000, that is to say, more rapidly than during 1999, despite the fact that development was slowed down by the large rise in employment in the services sector.

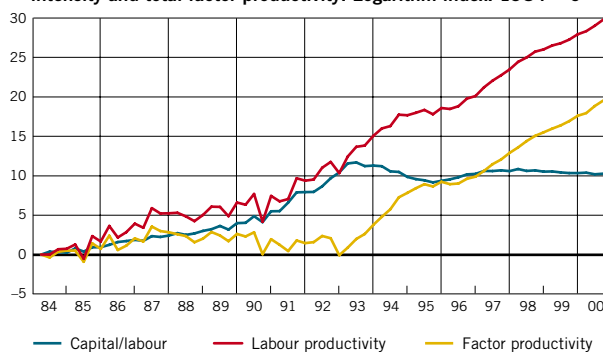
During autumn 2000, several trade unions announced their wage demands for the coming round of negotiations. These wage demands were higher than during the previous round of negotiations, while resource utilisation was more strained.

The strong economic activity contributed to a favourable development in public sector saving. The total public sector saving for 2000 is estimated at 3.5 per cent of GDP. The public sector's consolidated gross debt, as a percentage of GDP, declined from 66 per cent to 60 per cent during the year. Sweden was thus one of the EU members with the strongest public finances.

**Monetary policy considerations and decisions**

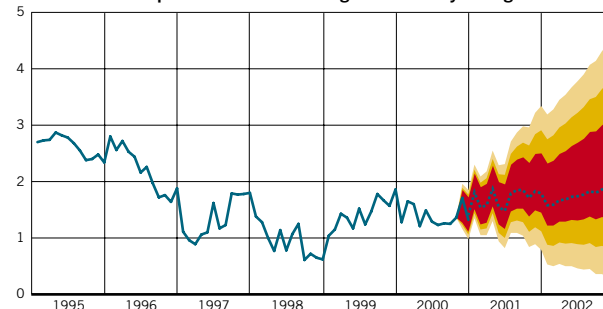
At the beginning of 2000, a stable and broad rise in economic activity in Sweden was expected, as well as further improvement in the international economy. The Inflation Report published in December 1999 assessed that UNDI<sub>X</sub> inflation would

**Diagram 5. Labour productivity in trade and industry, by capital intensity and total factor productivity. Logarithm index: 1984 = 0**



Sources: Statistics Sweden and the Riksbank.

**Diagram 6. UNDI<sub>X</sub> with uncertainty interval according to the Inflation Report 4/2000. Percentage 12-monthly change**



Note. The uncertainty interval shows the interval in which underlying inflation, UNDI<sub>X</sub>, 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.

rise and exceed the target in two years' time, while the risk assessment pointed towards a slightly higher inflation rate. Taking into account the uncertainty over Y2K, however, the repo rate was not raised at the end of 1999.

The analysis made at the beginning of 2000 indicated slightly higher price pressure from abroad than was estimated at the time of publication of the Inflation Report in December 1999. The Executive Board of the Riksbank therefore decided, on 4 February, to raise the repo rate by 0.5 percentage points to 3.75 per cent.

The Swedish prospects for growth and inflation one to two years ahead were not changed to any significant extent during the spring, summer and autumn. Although the rise in economic activity and a gradual rise in capacity utilisation indicated that the repo rate would need to be raised again, the incoming inflation proved a positive surprise. One contributing factor that resulted in stronger effects was deregulation. There were also indications that a generally stiff competitive pressure was

keeping down inflation. Another contributory factor was a better development than expected in productivity.

The Inflation Report published by the Riksbank in September presented revised calculations for the production gap, a statistical measure of the degree of resource utilisation, that provided a better covariation with the inflationary trends of previous years. Other indicators of a lower inflationary pressure than previously assessed included wage trends and measurements of labour shortages<sup>3</sup> within various parts of the economy. At the current growth rate, it was thus assessed that it would take some time before the rising resource utilisation constituted a threat to the inflation target.

The potential growth rate was estimated at 2–2.5 per cent a year, which is higher than the average growth rate since the 1970s. During the 1990s, the Swedish economy has undergone major changes that are considered to have influenced productivity trends as well as the trend in labour supply.<sup>4</sup> The total factor productivity, that is to say, the part of labour productivity normally attributed to broad technological and organisational developments, has developed positively.

The increased use of information technology may also have contributed to a more favourable development in productivity. There have been substantial investments in information and telecommunications technology in Sweden and the element of “new economy” is assessed to be greater here than in, for instance, the euro area. However, there are deficiencies in the statistical information. The Riksbank began a co-operation on measuring and analysing statistics on Swedish productivity developments with Statistics Sweden in 2000, in order to improve information in this field.

The December 1999 Inflation Report assumed that the strong economic activity would continue during 2001 and 2002. A slight downward revision was made, however, partly in the light of the weaker international economic activity. Nevertheless, growth was estimated to amount to approximately 3 per cent a year, which was expected to lead to an increasingly strained utilisation of resources. A perspective towards 2003 assessed the fundamental conditions as favourable for continued good growth, while temporary effects were not expected

to limit price pressure to the same extent as in 2001 and 2002.

Developments during the period one to two years ahead were expected to result in a gradual rise in domestic inflation. UNDEX inflation was estimated in the main scenario to amount to 1.8 per cent one year ahead and to 1.9 per cent two years ahead.

At the same time, the risk picture had changed and the uncertainty in the assessments had increased. The risk factors considered capable of contributing to a higher inflation rate than in the main scenario were primarily the exchange rate, oil prices and wage trends. These upside risks were partly balanced by the fact that international developments could be weaker than assumed in the main scenario. Taking the risk picture into consideration, UNDEX inflation was estimated to amount to 2 per cent and 2.3 per cent one year ahead and two years ahead respectively.

Given the above, the Riksbank decided on 6 December to raise the repo rate by 0.25 percentage points to 4.0 per cent. The purpose of this raise was to retain price stability and a good and stable development in the Swedish economy. On the same day, the Riksbank decided to change the deposit and lending rates (the interest rate corridor) so that the repo rate would lie at the centre of the corridor. The deposit and lending rates will not be used to signal monetary policy in future.

It is the Riksbank’s ambition that its actions should be foreseeable. On those occasions during 2000 when the Executive Board changed the repo rate, their decision was in line with the market’s expectations.

To summarise, 2000 was another year of good growth (approximately 4 per cent), accelerating employment and price stability. Since 1993, growth in the economy has amounted to 3.2 per cent on average and the inflation rate has amounted to 1.3 per cent. This can be compared with the latter half of the 1980s, when the corresponding figure for growth was 2.5 per cent and the inflation rate was 7.4 per cent a year.

3. Labour shortages here refers to the percentage of companies stating in the National Institute of Economic Research’s Business Tendency surveys that they are experiencing a shortage of labour.

4. Reforms have been implemented in the systems for taxation, social insurance and pensions. Stability policy has been aimed at low inflation and macroeconomic stability. The conditions for competition have been increased through deregulation, changes in legislation on competition and through membership of the EU. Some institutional changes have also been made within the framework of wage formation.





**The Riksbank communicates with players on the financial market.** One of the Riksbank's operational objectives is to promote a safe and efficient payment system. In addition to publishing the twice-yearly Financial Stability Report, the bank holds a continuous dialogue with players on the financial market.

## Good stability in the financial sector

**One of the Riksbank's operational objectives is to promote a safe and efficient payment system. The Riksbank therefore presents regular reports on its views of developments in the financial system. The year 2000 contained substantial fluctuations on the financial market, while indebtedness in the household sector increased. Despite this, the financial sector continues to show good stability.**

### **The Riksbank's oversight of the payment system**

One of the Riksbank's operational objectives is to promote a safe and efficient payment system, which involves the Riksbank overseeing the payment system as a whole. This oversight work is pursued in two main areas. Firstly, the bank oversees the *financial infrastructure*, with the aim of minimising systemic risks and avoiding efficiency losses connected with the construction of the infrastructure. The other area concerns the *banks*, which are the central players in the payment system, as they mediate account payments. The Riksbank does not have the role of supervisory authority for individual institutes, but oversees developments in the banking sector, and in particular in the four major banks, as part of its stability analysis. The purpose of this oversight is partly to assess the risk of problems arising in the banking system that could lead to serious disruptions in the payment system, and partly to maintain a readiness for any crises that could be triggered.

### **Changes make greater demands**

Deregulation, greater internationalisation, more rapid communication, technological innovations and increasingly sophisticated financial instruments have entailed that the financial markets can handle increasingly large financial risks. This creates conditions for higher economic growth, as a more efficient risk spread enables savings to be more easily channelled to investments in various areas. Internationalisation also increases the risk that financial crises in one country or one major bank can spread rapidly to other banks and countries. This means that the regulations and supervisory authorities in each country need to be adapted continuously and co-operation between countries needs to be developed further. This makes demands on flexibility among both the international and national insti-

tutions. Various forums for international co-operation have been working intensively for several years now on improving joint regulations and standards for financial operations.

The Riksbank has no direct responsibility for supervision work or regulations, but in its overseeing role it has a strong interest in being informed on and influencing the design of the supervision and regulations. The Riksbank therefore takes an active part in international and national co-operation groups dealing with issues concerning limiting risk taking for the market and financial institutes.

### **Preventive measures**

The most important method of reducing the risk of financial crises is to have good regulations and to have properly functioning supervisory authorities to ensure that the regulations are followed. An important part of the supervision work involves ensuring that the banks' individual risk management systems are applied and are reliable. In addition, there is a need for overall analyses and assessments of the collective risk build-up throughout the banking system as a whole, as risk assessments of individual institutes do not necessarily comprise the collective risks in the system as a whole. Thus, an important part of the Riksbank's role in promoting an efficient payment system involves analysing developments in the major banks and risk development in the system as a whole. The Riksbank publishes the results of its assessments twice a year in its Financial Stability Report.

The publication of this report acts as a means for the Riksbank to contribute to preventing the banks from increasing their risk taking to a level that could lead in the long term to a financial crisis and problems in the payment system. Drawing the attention of the banks to the potential risks gives them the opportunity to take the necessary measures in good time. The analysis is also discussed with the authorities, for instance, the Swedish Financial Supervisory Authority, which has at its disposal measures to limit the banks' risk levels.

In the event of serious disruptions to the payment system or if there are other special reasons, the Riksbank has the right to grant credit or accord a guarantee to support liquidity within banks and other companies under the supervision of the Swedish Financial Supervisory Authority. The Riksbank's con-



tinuous analysis of the financial system comprises an important basis for the assessments that need to be made when the stability of the payment system is threatened. If a crisis arises, the authorities concerned need to take rapid, co-ordinated action. The Riksbank therefore ensures that the organisation and routines to be applied in a crisis are continuously updated.

### The Riksbank's assessments and measures taken during 2000

During 2000, the banks' profitability increased. Rising commission income from the bank's asset management and stock-broking activities, combined with falling credit losses improved the banks' results. At the same time, the surplus from the bank's traditional deposit and lending activities continued to decline. The trend of a declining surplus from deposit and lending activities has been clear for several years and is partly due to new forms of savings reducing bank deposits.

#### The banks

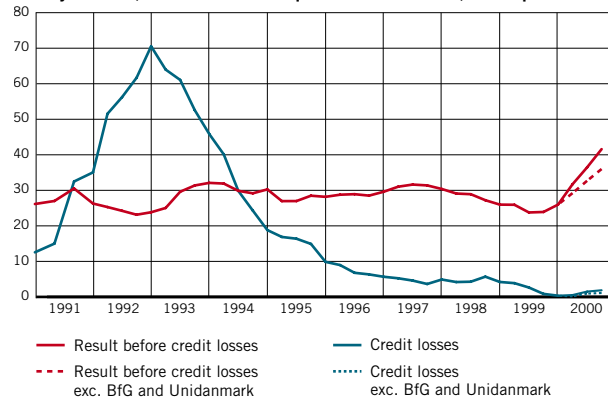
The banks' earnings during the year benefited from the strong growth in the economy. Optimism concerning growth was also expressed in the continued strong rise in share prices at the beginning of the year. Property prices also rose. The Riksbank therefore focused its analysis on how the banks' operational risks were affected by developments in the stock market and property market.

This included estimating how sensitive the banks' results were to falling share prices. The conclusion was that the stability of the system was not threatened by falling share prices, and neither did developments on the property market comprise a threat to the banks' stability. The main reason for this was that increases in property prices and share prices over the year had not coincided with a heavy expansion in credit, as was the case prior to the bank crisis at the beginning of the 1990s.

#### Households and companies

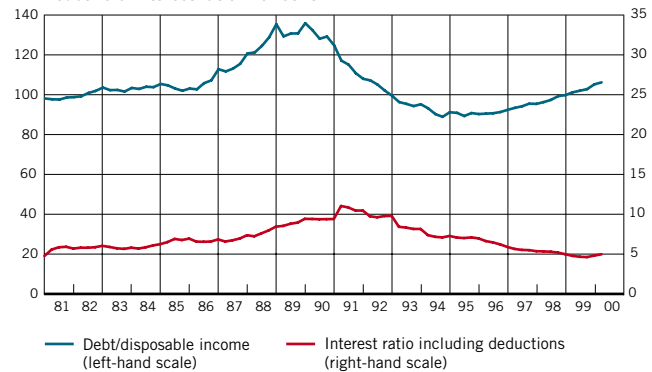
There was a slight build-up of risk in the household sector as a result of the large growth in lending and the increase in household wealth provided by rising asset prices. Households' capacity to meet mortgage and interest payments on loans was assessed to be sufficient that household lending would not lead to losses in the financial system that could threaten financial stability. However, fluctuating and falling share prices, as well as a slight increase in the number of company bankruptcies, indicated a slight slowdown in economic growth during the latter part of the year. This was also reflected in a slowdown in the growth of the money volume. However, lending to the Swedish public continued to grow at a rapid rate.

Diagram 1. The results before credit losses and credit losses in the major banks, totalled over four quarters. SEK billion, 1991 prices



Sources: The banks' annual accounts and the Riksbank.

Diagram 2. Household debt in relation to disposable income and household 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.

Nevertheless the Riksbank's analysis of counterparty risks, i.e. the claims and debts the banks have against one another, indicated that there is cause to examine the possibility of tightening the rules on major exposures between financial companies.

An investigation into this was therefore started, together with The Swedish Financial Supervisory Authority, during 2000. The analysis also emphasised the major exposures that arise in Swedish foreign exchange trading. The Swedish regulations for foreign exchange trading are co-ordinated with the regulations applying internationally. The Riksbank therefore decided to work actively in its international commitments towards changes in the internationally agreed rules, with the aim of reducing risks in foreign exchange trading.

### Oversight of the financial infrastructure

Developments in several areas have led to an increase in interest in payment system matters. Rapid developments in technol-



ogy have resulted in innovations in payment forms and the development of new channels for payments. Globalisation and deregulation of the financial markets have led to increased trading volumes and the appearance of new instruments. This in turn has affected the pattern and size of payment flows.

An important part of the Riksbank's work on promoting a safe and efficient payment system is the overseeing of the financial infrastructure. The overseeing work is aimed at mapping out and following up sources of systemic risks and efficiency losses in the financial infrastructure, and trying to reduce them. An increased risk of disruptions and efficiency losses arises in the financial system when:

- the organisation of a clearinghouse, marketplace or payment system is deficient. The market structure itself can lead to such deficiencies, for instance, in the case of a high degree of market concentration.
- legislation, regulations or rules create the wrong incentives.
- transaction flows are very sensitive to external shocks or if these flows are not efficiently handled by the system.

The overseeing work is aimed at the financial infrastructure on the basis of these three points. In addition, the work is divided into three main areas: systems for large payments, systems and instruments for mass payments and financial markets.

#### *The Riksbank's actions during 2000*

One of the main tasks during 2000 has been to create an intellectual framework that binds the work on the financial infrastructure into one whole. The purpose of this has been to provide a better focus on the efficiency and stability aspects that should be paid greatest attention.

A Payment System Committee was established in September, at the initiative of the Riksbank, to work with long-term issues regarding the financial infrastructure. In addition to the Riksbank, the four major banks, the Securities Register Centre and the OM Stockholm Exchange are participating in the work of this committee. A high-priority issue is the future payment system. The requirements on the payment system have increased both with regard to accessibility and efficiency. The costs of meeting these requirements, combined with the fact that the number of banks in Sweden has declined as a result of mergers and acquisitions, has brought up the question of whether the structure of the payment system needs to be altered. Various solutions are being discussed, for instance with regard to the opportunities for better domestic co-ordination between different systems or co-ordination with other countries.



**Financial stability.** The Riksbank regularly reports its views on developments in the financial system.

## The assessments are focused on three areas:

- 1. Strategic risks** caused by long-term changes in the financial markets. Structural changes can affect the banks' earning capacity and profitability. This can, for instance, lead to the banks increasing their risk taking with the aim of restoring profit levels in the short term.
- 2. Credit risks** in the banking sector that are connected to the macro-economic developments in the medium term. Exaggerated expectations of future income flows can, for instance, lead to both the demand for and supply of credits increasing more than is sustainable in the long term. This type of development can eventually cause losses to the banking sector that may threaten the stability of the payment system.
- 3. Specific risks** within the banks that could threaten financial stability in the short term. Large claims on an individual counterparty, for instance, could lead to the latter's financial problems having considerable spread effects.



The Riksbank influences interest rates. The 'market operations' carried out by the Riksbank influence the short-term market rates, which in turn affect the development of inflation. The Riksbank's Market Operations Department closely follows developments on global financial markets.

## The Riksbank influences market rates

**The Riksbank influences market rates by using the assets and liabilities in its balance sheet. Part of the assets is comprised of the foreign currency reserve, which the Riksbank retains for foreign exchange policy purposes. The Riksbank also provides a system for implementing large payments between the banks and is responsible for supplying Sweden with banknotes and coins.**

### The Riksbank's balance sheet

The fact that central banks have a balance sheet is essentially due to the issuing of banknotes and coins. When the Riksbank delivers banknotes and coins to the banks to be conveyed to the general public, this involves a loan from the Riksbank to the banks, and the banks pay interest on this. The banknotes and coins in circulation are therefore entered into the Riksbank's balance sheet as a liability and lending to the banks is entered as an asset. If the Riksbank raises the rate for its loans, the banks in turn need to raise the rates they charge their customers.

The Riksbank's balance sheet also has capital on its liability side. This is to function as a buffer against fluctuations in the Riksbank's results and to create readiness for providing emergency liquidity assistance to banks suffering a liquidity crisis. This capital is invested in assets in Swedish kronor and foreign currencies.

The kronor assets thus consist of loans to banks and other interest-bearing assets. The foreign currency reserve consists of the assets invested in foreign currencies. The Riksbank holds the foreign currency reserve primarily to enable it to intervene on the foreign exchange market, although the need for this is limited with the current exchange rate regime.

The Riksbank's balance sheet totalled SEK 233 billion at the end of the year, which is slightly more than at the end of 1999.

#### **Basic structure of the Riksbank's balance sheet**

Assets	Liabilities
Foreign currency reserve	Stock of banknotes in circulation
SEK-denominated securities	Capital
Lending to the banks	

The value of the foreign currency reserve increased partly as a result of exchange rate developments during the year. This contributed to an increase in the Riksbank's assets.

On the liabilities side, the amount of banknotes in circulation increased at the turn of the millennium as a result of a rise in the demand for banknotes. A high level of growth in 2000, with a large increase in consumption, helped maintain a high demand for cash, which means that the stock of banknotes in circulation has not changed during the year.

The composition of the assets thus mainly depends on the formulation and application of the monetary policy steering system. This also applies to the deposit and lending facilities the Riksbank offers to banks participating in the RIX payment system and which affect the balance sheet when used.

The Riksbank affects inflation by steering the short-term market interest rates. The borrowing requirement the banks have with the Riksbank, and which is entirely due to the demand for banknotes, is normally met through lending at the Riksbank's repo rate. The banking system as a whole finances its total loan requirement in the Riksbank, while liquidity differences between individual banks are evened out on the overnight market. The Riksbank's deposit and lending rates form a corridor around the repo rate and set the limits for the overnight rate, which closely follows the repo rate. The overnight rate in turn affects other interest rates.

### Managing the gold and foreign currency reserve

#### *Exchange rate policy and the foreign currency reserve*

The government determines what exchange rate system Sweden will adopt. The Riksbank then decides how this system will be applied. The current exchange rate system entails a floating exchange rate, that is to say, the krona moves freely against other currencies. The Riksbank shall hold assets in foreign currency, foreign assets and gold.

#### *The gold and foreign currency reserve*

The gold and foreign currency reserve consists of gold, foreign currencies and claims in special drawing rights that the Riksbank has in the International Monetary Fund.

The foreign currency reserve is managed with the aim of pro-

viding a good yield and is mainly invested in treasury bonds issued by other countries. Four currencies are used: US dollars (35 per cent), euro (35 per cent), British pounds sterling (15 per cent) and Japanese Yen (15 per cent). The foreign currency reserve is divided up into an investment portfolio and a liquidity portfolio.

The gold reserve, which comprises approximately 10 per cent of the gold and foreign currency reserve, acts as a buffer to be used in extreme situations when other assets cannot be used or are not available. The gold reserve amounts to 185.4 tonnes and has a market value of SEK 15.4 billion. Some of the gold reserve is loaned out to provide income.<sup>1</sup>

*Investment philosophy*

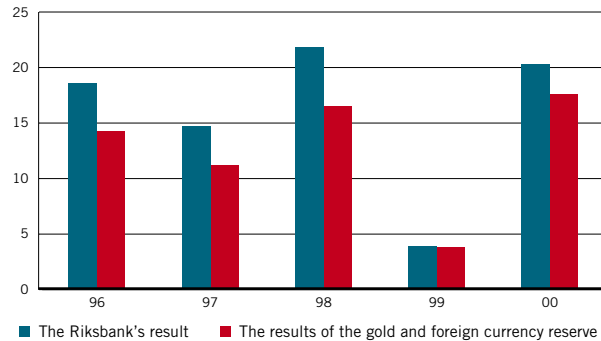
The investment portfolio is the part of the foreign currency reserve that is invested in bonds. The aim is to generate the best possible long-term return, given the risk level determined by the Executive Board. There may be short-term variations in the results. Investments can be made in assets with a government guarantee in the four currencies used, as well as bonds issued by international organisations (for instance, the World Bank) and other government guaranteed securities, so called eurobonds. The Riksbank manages the investment portfolio itself in order to have control over the risks taken. Risks are adapted to changing market conditions. For example, the portfolio’s sensitivity to interest rates is reduced when interest rates rise and vice versa.

The liquidity portfolio is the part of the foreign currency reserve that comprises the Riksbank’s cash in foreign currency. It is used for the inflows and outflows from the foreign currency reserve that arise, for instance, for interest payments when the Riksbank acts as agent for the Swedish National Debt Office. When the Debt Office repays a loan in foreign currency, the currency is bought from the Riksbank. The size of the liquidity portfolio is therefore always determined by the Swedish National Debt Office’s repayment plans for the central government’s foreign currency loans. Investments are made in the liquidity portfolio so that they coincide as far as possible with a loan payment, in order to limit the interest rate risk.

*Earnings during 2000*

Management of the foreign currency reserve generated a net interest income of SEK 6.2 billion during 2000, while the net revenue amounted to SEK 17.6 billion. Exchange rate effects

Diagram 1. The Riksbank’s result and the results generated by the gold and foreign currency reserve. SEK million



Source: The Riksbank.

contributed SEK 6.2 billion to the result. The price effect in valuation of the gold and foreign currency reserve improved the result by SEK 5.2 billion.

**The Riksbank’s financial risk management**

Financial operations generate financial risks and the management of these risks is a natural and essential part of operations. The size and composition of the Riksbank’s balance sheet is governed by the monetary policy and exchange rate policy requirements and by the fact that the Riksbank is responsible for the country’s supply of banknotes and coins. Risk is therefore largely governed by the overall design of the policy. A well-developed risk management system is essential for an effective and expedient management. A number of different financial risks arise within the Riksbank’s balance sheet and operations, including the management of the foreign currency reserve, the domestic portfolio and the payment system.

The responsibility for managing the Riksbank’s financial risks lies at several levels. The ultimate responsibility is borne by the Executive Board. Each department shall manage the risks generated in its own operations. There is also a special Risk Control Department for control and analysis of financial risks. This department is independent of the other operations and reports directly to the Executive Board. There are different types of financial risks and these are normally divided into credit risk, liquidity risk, market risk, operational risk and prestige risk.

Credit risk is the risk of unexpected losses due to the bank’s counterparties not being able to fulfil their undertakings to the bank. In order to limit credit risks, the Riksbank specifies both qualitative (for example rating/creditworthiness) and quantitative requirements for approving counterparties and collateral pledged to the bank. In the management of the foreign curren-

1. Lending and sales of gold are limited by an agreement between the central banks in September 1999. This states that a central bank may not increase its sales or lending of gold for five years from September 1999. The Riksbank has 117 tonnes of gold on loan.



cy reserve, it is the credit rating that determines the size of the amount that can be invested in a counterparty.

*Liquidity risk* is the risk that the Riksbank's payment undertakings cannot be immediately fulfilled. The Riksbank maintains a readiness for meeting both its regular, and any unforeseen, payment commitments. The foreign currency reserve is invested in different currencies and different financial instruments for which large, liquid markets exist, in order to reduce the liquidity risk.

*Market risk* is the risk of losses on assets due to changes in interest rates and exchange rates. The Riksbank's interest rate risk is limited in that the Executive Board has established an interval for the foreign currency reserve's sensitivity to interest rates. The Riksbank spreads the foreign exchange risk by investing in four different currencies.

*Operational risk* is the risk of unexpected losses due to deficiencies in administrative routines or systems, inadequate internal control or insufficient knowledge among employees. These risks are limited by ensuring that the bank has knowledgeable personnel, clear regulations known to all staff and by dividing up areas of responsibility.

*Prestige risk* is the risk that the Riksbank's reputation may be damaged due to the way its financial operations are run. The Riksbank only does business with or in instruments issued by counterparties with a very good reputation. In addition, Riksbank employees are obliged to follow specially stipulated ethical guidelines.

### **The RIX system**

Ensuring that payments can be settled between the different participants in the economy requires, in addition to means of payment, an infrastructure where payments can be made. The Riksbank operates the system – known as K-RIX – that mediates all payments in kronor between the banks. This system also manages underlying payments for securities transactions and the payments made via post giro and bank giro. The payments made between the Riksbank and the banks are also mediated via the RIX system. The system therefore constitutes the focal point of the Swedish payment system and plays an important role in the practical implementation of monetary policy.

The part of RIX that manages euro is also connected to the EU's joint payment system – TARGET – which was formed when the euro was introduced at the beginning of 1999. All of the fifteen national central banks in the EU and the European Central Bank are connected to this system. This system forms a network linking together 5,000 commercial banks throughout the EU into one joint payment system.

### **Banknotes and coins**

Part of the Riksbank's task of promoting a safe and efficient payment system involves being responsible for the national supply of banknotes and coins. The General Council of the Riksbank decided on the design of the banknotes and coins issued by the Riksbank. The denominations are established in the Sveriges Riksbank Act. The Riksbank's two wholly-owned subsidiaries AB Tumba Bruk and Pengar i Sverige AB produce and distribute banknotes and coins in Sweden.

The Riksbank monitors and manages its subsidiaries partly through its ownership of them and partly through the business the bank gives to the companies. The business given to Pengar i Sverige AB states that the company's operations shall be carried out under the supervision of the Riksbank. As owner, the Riksbank has the same tasks as owners of other limited liability companies. The board of directors takes care of the owners' interests during the financial year. The Riksbank has signed agreements with the companies concerning the business given to them; regulating what work shall be done, how it shall be done and what information should be reported to the Riksbank. In addition, the Riksbank carries out checks at the companies to ensure that security, in particular, functions satisfactorily.

The supervision of Pengar i Sverige AB is mainly to safeguard the interests of the general public through safe and efficient operations.



# Reform of the global finance markets an important issue

The internationalisation of the economy provides individual countries with advantages in the form of increased opportunities for trade and greater access to international capital. However, it also makes demands on the countries involved to implement reforms in various economic fields to enable them to meet the rapid changes following in the footsteps of globalisation. This area was the most discussed topic at the international forums in which the Riksbank participated during 2000.

## Measures for crisis prevention

The eruption of the Asian crisis in 1997 triggered an intensive work on changing the regulations and institutions that govern the financial markets, with the aim of preventing new, international financial crises. The reform of the international financial architecture, as this work is called, was a very high priority within the IMF in 2000. Sweden's points of view regarding decisions to be taken by the IMF's board are drawn up by the Riksbank in consultation with the government, which is represented here by the Ministry of Finance. One conclusion drawn by the IMF over the year was that it would continue the work on strengthening member countries' domestic financial systems in order to reduce the risk of future financial crises. An important part of this work involves the IMF ensuring that individual countries apply international minimum standards, which have been produced not only by the IMF, but also by the World Bank, the OECD and the Basel Committee on Bank Supervision. These cover areas such as financial statistics, transparency in monetary and fiscal policy, supervision of financial institutes, combating money laundering, etc.

## Crisis management

There was also an in-depth debate pursued within the IMF and other organisations during 2000 on how multilateral organisations should handle international financial crises if these should arise, despite active measures to prevent them happening. This discussion has primarily covered the scope and conditions of IMF lending to countries in crisis. The Fund has discussed, for instance, reducing the number of conditions made of the borrowing countries, in order to focus on the most

central conditions for restoring external balance and stability.

To adapt the IMF's measures to varying conditions in different countries with external funding needs, the IMF's concessional (soft) loans<sup>1</sup> to developing countries now have an explicit poverty reduction objective.

The IMF also worked to involve the private sector in funding the balance of payments' deficit of countries in crisis. During 2000, the IMF successfully renegotiated bond loans in connection with lending to several countries. The IMF's Executive Board concluded that a closer co-operation with the private sector is necessary both to reduce the strain on public lenders and to create motivation for sound risk assessments by investors. However, the exact nature of this co-operation will vary from case to case.

## Increased transparency

The IMF has also aimed to improve the conditions for assessing developments in individual countries by encouraging countries to allow the general public and financial market players greater access to statistics and other information, for instance, via the Internet. During 2000 there was an evaluation of an experiment where individual countries were encouraged to publish documents from the IMF's surveillance and lending and it was decided to continue with this policy of openness. The IMF now publishes its own financial transaction plan, describing how its lending is funded, in order to further increase its own openness.

At the time of the latest increase to IMF capital, the member countries decided a review should be made of the members' quota shares, which determine both the share of capital and votes in the IMF. An analysis of the quota share construction has therefore been reported to the Executive Board. There have also been discussions regarding the members' relative quota shares.

## EU enlargement continues

Issues concerning crisis prevention and crisis management are also a central topic for the countries currently negotiating to join the EU. EU accession acts as a driving force for implementing

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1. Via the HIPC initiative (Heavily Indebted Poor Countries) and PRGF (Poverty Reduction and Growth Facility).

important economic and political changes for these countries. Regular assessments of the applicant countries' positions are made using the 'Copenhagen criteria', which state what the countries need to implement to function as market economies and thereby also adopt the EU rules and regulations and participate in the single market. During the autumn, the Commission made an evaluation, which was discussed by the Economic and Financial Committee, on which the Riksbank and the Ministry of Finance are represented. According to this evaluation, the countries had on the whole made progress, although there were still considerable differences between them. This economic assessment will in future be supplemented with monitoring of the macroeconomic and financial stability in these countries. The monitoring will be part of a continuous dialogue with the applicant countries to prepare their economies for future accession to the EU.

As part of the discussions on applicant countries' economies, the Ecofin Council has emphasised that the choice of exchange rate regime must be regarded as secondary to the general economic policy aim of maintaining internal stability and external balance. This gives the applicant countries freedom to decide which exchange rate regime they wish to adopt, both before EU accession and for some time afterwards. However, once they are members, they must regard the choice of exchange rate as an issue of common interest, in accordance with the Treaty of Maastricht.

The enlargement of the EU also puts considerable pressure on the EU countries to reform the decision-making process in the Union's institutions. Work on these issues took place under the form of a governments conference and the results were presented at the Nice meeting of the European Council in December.

### **An integrated financial market within the EU**

The current members of the EU also held an in-depth debate on the financial system during the year. One of the conclusions reached, on the basis of a report produced by a working group within the Economic and Financial Committee, was that the supervisory authorities need a greater exchange of information among themselves and better co-operation with the central banks and ministries of finance. No institutional changes were



**The Riksbank is a member of several international bodies.** These include the IMF, ESCB and BIS, involving many trips by employees to Washington, Frankfurt and Basle.

## The Riksbank's international co-operation

The issues covered in this section are discussed in several international organisations to which the Riksbank belongs, in particular the IMF and the EU. The IMF work focuses on measures to prevent international financial crises. The EU work mainly comprises co-operation with the European System of Central Banks (ESCB) and the Economic and Financial Committee, which advises the Ecofin Council on economic policy issues.

**The Governor of the Riksbank** is a member of the ECB's General Council and the Riksbank is represented on approximately 45 committees and working groups within the ESCB. However, as Sweden has not adopted the single currency, the Riksbank cannot participate fully in the work of these committees.

**The Riksbank** also participates in the monetary and financial co-operation between central banks in the Bank for International Settlements (BIS). Another important forum is G10, where the Riksbank and the Ministry of Finance represent Sweden.

considered necessary to ensure financial stability in the EU.

Another facet of this debate concerned improving EU member states' opportunities to benefit from the rapid developments in the financial markets. An action plan for financial services was therefore adopted. This basically involves realising an integrated European financial market by 2005. During the autumn the Commission pointed out that there was a risk of delays in the timetable and presented a number of high priority measures to be implemented during the coming six months. The Ecofin council also appointed a committee to produce proposals for reforming the regulations on the securities markets. The committee has proposed a simplified procedure for more rapid adaptation of the regulations to new conditions in the markets. The final report from the committee will be presented at the summit meeting in Stockholm in March 2001.

In the same spirit, the EU Member States emphasised the need for continued structural reforms in other areas as well. One of the conclusions from the spring summit meeting in Lisbon was that the EU's general guidelines for economic policy should focus even more on the effects of the member countries' structural policy. The target is to increase potential growth and employment, as well as supporting the transition to a knowledge-based economy. The Commission will identify 'structural indicators' to assess the countries' progress in structural policy changes, and present these indicators in regular reports.

The EU Member states also intend to intensify the monitoring of developments in public finances in individual countries. The focus will change from quantitative aspects for fulfilling the requirements of the stability and growth pact to more qualitative aspects.

Work was therefore begun on a report on the public finances' contribution to growth and employment. This report will assess the measures to reduce taxation for low-income earners, strengthen motivation to work through the taxation and subsidy systems and to increase the contribution of public expenditure to capital formation, research and development, innovations and IT developments. The report will also examine what the Member States have done to safeguard sustainability in their public finances in the long term, taking into account Europe's ageing population.

## The Riksbank's preparations for EMU

**In accordance with a parliamentary decision** from December 1997, Sweden is not participating in the third stage of EMU. The same decision declares that Sweden shall maintain the greatest possible freedom of action with regard to a possible future Swedish membership of the monetary union through technical and practical preparations. The Riksbank has therefore set an internal target that the changeover required for membership of the EMU could be managed within one year of a political decision. However, the production and introduction of coins and notes in euro would take at least another six months after entry into the EMU.

**The work on the Riksbank's internal preparations** is run in project form. In addition, the Riksbank has responsibility for co-ordinating the preparations within the financial sector.

**The general public is kept informed** of the ongoing preparations, both within the Riksbank and in the financial sector, through regular situation reports. So far, two special reports and five situation reports have been presented, the most recent in March 2000.

## Statistics more user-friendly

**A substantial amount of statistics is produced within the Riksbank. In the year 2000, the statistical operations were divided up between different departments. This has improved the user influence on the statistics. The Riksbank has also made a review of its statistical reporting during the year, with the aim of utilising modern information technology in future for greater efficiency.**

The statistics cover the fields of financial institutes and markets, known as financial market statistics, and the balance of payments. These statistics provide an opportunity to analyse how different factors influence the development of the financial markets, as well as how changes in regulations and new instruments affect the impact of monetary policy and the stability of the payment system. The statistics are used as a basis for monetary policy decisions and in the Riksbank's monitoring of the financial system.

The Riksbank's statistics are also important to external users, with regard to following and assessing developments on the financial markets. Statistics Sweden also uses the Riksbank's statistics. The balance of payments provides an important basis for the National Accounts and the financial market statistics are used when compiling the financial accounts.

### International requirements

The European Central Bank (ECB) and international organisations such as the International Monetary Fund (IMF) are also important users that make requirements of the statistics produced by the Riksbank.

On the basis of requirements from the ECB, the preparation work for a possible Swedish membership of the EMU has continued. There is a particular need to adapt the financial market statistics, where the requirements from the ECB have increased in recent years.

The IMF has established a special statistics standard, the Special Data Dissemination Standard (SDDS), to increase international transparency. Sweden has adopted this standard, along with around 50 other countries, and thus undertaken to produce and publish the economic statistics prescribed in the standard. The Riksbank is responsible for co-ordinating this work in Sweden.

### Statistical production closer to the users

Statistical operations within the Riksbank were divided up in 2000 and distributed between some of the other departments within the bank. The fact that the balance of payments statistics are now produced within the Monetary Policy Department and the financial market statistics are now produced within the Financial Stability Department, enables greater user influence over the statistics.

The balance of payments statistics are partly based on information on foreign payments. An investigation has been started within the bank to determine whether it is possible to relinquish this type of payments reporting and instead base the balance of payments statistics on random sample surveys. The aim is to simplify collection and maintain quality in these statistics.

A general review of reporting to the Riksbank is being carried out in the field of financial market statistics. When this is complete, it will enable the use of new, simpler reporting channels via the Internet.



## Research further develops analysis

**The Riksbank pursues research on issues relevant to the Riksbank's operations, that is to say, research projects and methods that can further develop the analysis of price stability and financial stability.**

The research work in the field of financial stability during 2000 has been concentrated on a newly-started project on the bank's credit risks. This type of study is important for several reasons.

It is probable that the central government's monitoring of banks will in future be aimed at assessing the design and application of the banks' own credit risk models. Both the central banks and the supervisory authorities must therefore have a good knowledge of the nature of such models and of how well they manage to portray various types of risk, for instance, risks connected with the economic cycle.

In addition, the Riksbank needs to develop indicators of stability in the Swedish payment system. An example of this type of indicator is an overall measure of the credit risks in the banks' loan portfolios. In Sweden – with its concentrated banking sector and good access to data – there are unique opportunities to implement analyses of this nature, which makes the project particularly interesting from a research point of view.

Research on financial stability is a new activity within the Research Department. In addition to this, the department has for some time pursued studies of monetary policy and inflation. Over the past year, several different projects have been pursued in this field, both theoretical and empirical projects. Theoretical models have been developed to study the consequences of different formulations of monetary policy with an explicit inflation target. Empirical studies have been made into the connection between inflation and unemployment and of the role of forecasts in the Riksbank's policy.

In January 2000 the Riksbank organised a conference entitled "Challenges for Modern Central Banking". The increasingly large international capital flows and new innovations on the financial markets lead to a constant need for the central banks to review their operations. Around a dozen leading foreign researchers were invited to contribute to the conference, to sum up the knowledge in this field and stimulate new research. The result will be published in book form during 2001.



### Research conference in Stockholm

**A conference on Asset Markets and Monetary Policy** was organised by the Riksbank together with Stockholm School of Economics. This conference was held at Frösundavik in Solna on 16–17 June 2000 and aimed to bring together academics and central bank economists to discuss the latest research results on asset markets (e.g. share prices and property prices) and monetary policy, and to draw conclusions for the practical implementation of monetary policy.

**Eight papers were presented** by researchers of international repute. The subjects covered included empirical patterns at the macro and micro levels, the monetary policy transmission mechanism and monetary policy implications of research results regarding the relationships between asset prices and the real economy. There were discussions on whether asset prices are good economic indicators, how price bubbles can arise on asset markets and whether financial crises have been more frequent and more severe since the 1970s, compared with earlier periods.

**The concluding panel debate**, chaired by First Deputy Governor Lars Heikensten, included a discussion on the conclusions that could be drawn with regard to the pursuit of monetary policy. A particularly topical issue was whether a central bank should react to inflation and asset price bubbles.

**The conference gathered together approximately 100 delegates** from around 40 central banks, as well as from several Swedish and international organisations.

## Microeconometrics researchers were awarded the Riksbank prize



Daniel L. McFadden



James J. Heckman

The Riksbank's Prize in Economic Sciences was awarded in 2000 to Professor James J. Heckman and Professor Daniel L. McFadden for pioneering work in what is known as microeconometrics.

This prize, which was established in connection with the Riksbank's 300<sup>th</sup> anniversary in 1968, is awarded every year to the person or persons in Economic Sciences who have produced work of outstanding importance as intended in the will drawn up by Alfred Nobel on 27 November 1895. The Royal Swedish Academy of Sciences appoints the prizewinner according to the same principles that apply for the Nobel Prize, and the same prize amount is paid by the Riksbank.

Microeconometrics combines microeconomic theory and statistical methods used to analyse micro data. Microdata is economic information about individuals, households and firms. Economists use microeconomic theory in trying to explain behaviour among various agents, for instance, the individual's choice of profession, labour supply or place of residence. Microeconomic theory assumes, for instance, that when an individual is given a choice, he or she chooses the alternative that provides him/her with the maximum benefit. Based on this theory, microeconomic models and micro data are used to statistically assess, for instance, how individuals' labour supply is affected by a change in the marginal tax rate.

Researchers often only have access to selective microdata that is not representative for the entire population. James J. Heckman, professor at the University of Chicago, has devel-

oped methods to deal with this problem and is also in the forefront of applied research in this field.

Traditional economic theory assumes that individuals can choose from an unlimited number of alternatives. In practice, however, the choices are often limited, for instance, when choosing a method of travelling to work, profession, or place of residence. Daniel L. McFadden, professor at the University of California, Berkeley, has developed theories and methods for analysing these discrete choices, as they are called.

Heckman's and McFadden's most important contributions came as early as the 1970s, but thanks to greater availability of micro data and increasingly powerful computers, their models are now standard tools, not only among economists but also among other social scientists.

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

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

## New organisation

The General Council of the Riksbank decided in May 2000 to adopt a proposal from the Executive Board on a new organisation for the bank. The aim was to create an efficient organisation with clearer areas of responsibility and a strong focus on the bank's objectives and tasks.

Three new departments were created with a direct emphasis on the Riksbank's main objectives:

- *The Monetary Policy Department* is responsible for the analysis of monetary policy, which forms the basis for meeting the objective of safeguarding the value of money.
- *The Financial Stability Department* is responsible for the analysis of the stability of the financial system, which forms the basis for meeting the objective of a safe and efficient payment system.
- *The Market Operations Department* implements monetary and exchange rate policy, and is responsible for the tools required to do this. Its operations support both of the main objectives.

The administrative support functions have been gathered into an Administration Department. The other departments pursue work aimed at supporting the Riksbank's main operations.

The number of departments was reduced from 16 to 11 after the reorganisation.

## The Departments of the Riksbank

The **Monetary Policy Department** is responsible for monitoring and analysing price stability. It also produces the balance of payments statistics. Head: Claes Berg. Employees: 75.

The **Market Operations Department** implements monetary policy and exchange rate policy. It is responsible for the RIX system, the foreign currency reserve and supplying banknotes and coins. Head: Christina Lindenius. Employees: 57.

The **Financial Stability Department** is responsible for monitoring and analysing stability in the payment system. It is also responsible for financial market statistics. Head: Martin Andersson. Employees: 35.

The **Secretariat of the Executive Board** is responsible for the administration of the meetings of the Executive Board and the General Council. It provides legal support and carries out investigations. Head: Robert Sparve. Employees: 20 (including the members of the Executive Board).

The **Administration Department** is responsible for office services, building maintenance, security, accounting systems, personnel and training. Head: Agneta Rönström. Employees: 119.

The **IT Department** is responsible for administering and maintaining the bank's central IT resources, as well as developing and purchasing new systems. Head: Staffan Wallén. Employees: 65.

The **Information Department** co-ordinates external and internal information and is responsible for press services, the Riksbank's website, the library and the bank's publications. Head: Leif Jacobsson. Employees: 13.

The **International Department** co-ordinates and develops the Riksbank's international work and provides assistance to the Executive Board in international contacts. Head: Gustav Adlercreutz. Employees: 12.

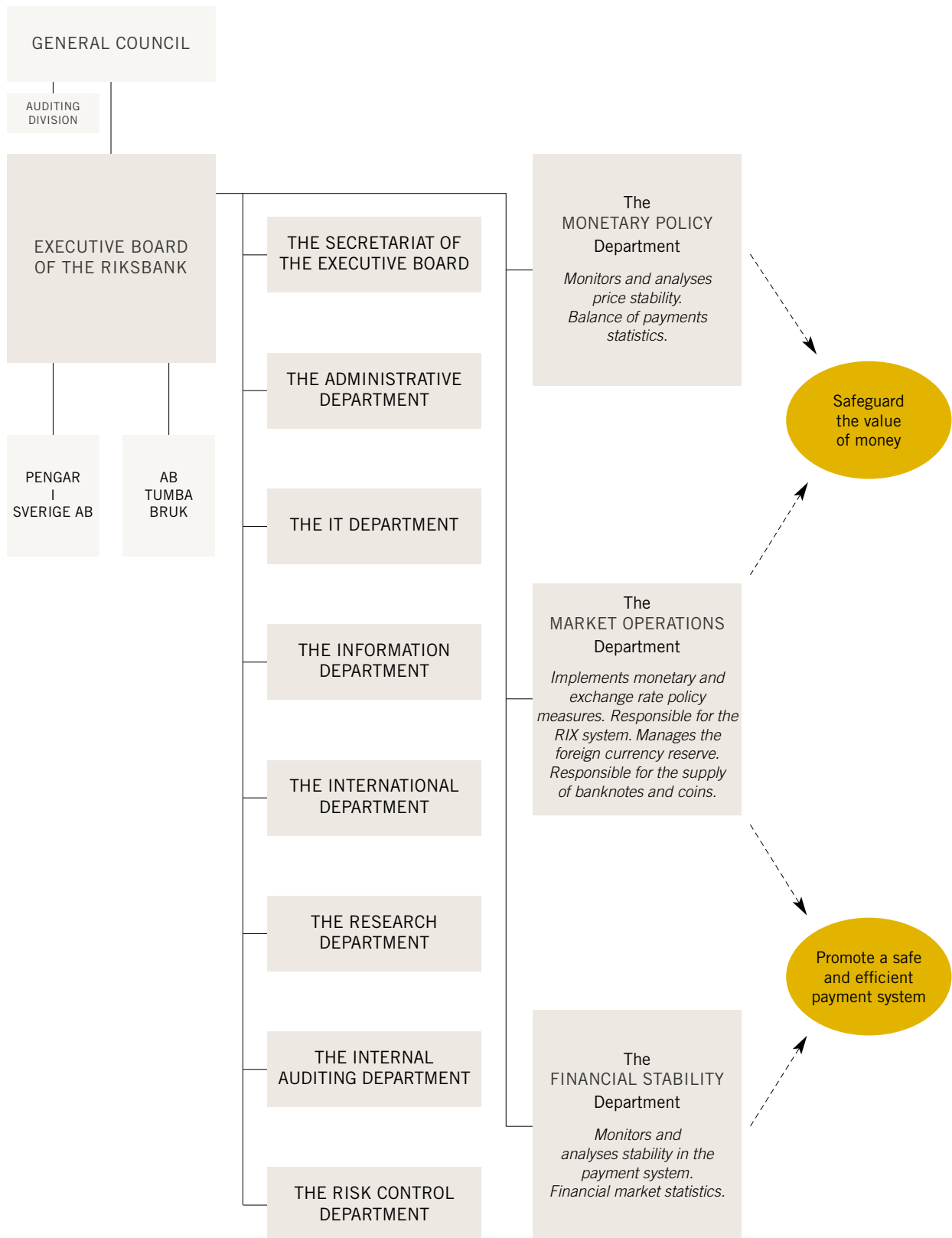
The **Research Department** pursues research in fields relevant to the Riksbank's operations. Head: Anders Vredin. Employees: 6.

The **Internal Auditing Department** examines and assesses the bank's operations and functions as a support to the Executive Board. Head: Marie Rudberg. Employees: 5.

The **Risk Management Department** is responsible for the independent assessment of the level and results of the bank's financial risks. Head: Kristina Åkerberg. Employees: 4.

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Note. The figures for total numbers of employees refer to full-time posts during 2000, i.e. the number of employees adjusted with regard to full-time or part-time posts.





## Greater commitment through stronger focus on objectives and work tasks

The bank's new organisation, which was introduced during 2000, has created clearer areas of responsibility and a stronger focus on the Riksbank's objectives and tasks. The Riksbank's ambition is to be one of the best central banks in the world. The work on making the Riksbank an attractive work place is a continuous process.

### New organisation for greater efficiency

Regular opinion polls are used to collect the staff's views and opinions systematically. This provides important information on what works well and what does not function satisfactorily within the organisation. The most recent opinion poll was carried out in autumn 1999 and indicated a need for improvement in some areas, including efficiency and learning at work. Concrete measures within these areas were given a high priority. The result of the opinion poll was also taken into account when designing the new organisation that came into effect in June 2000.

The reorganisation included reducing the number of departments and is aimed at increasing co-operation and integration between different fields of operation. This is an important part of the bank's endeavour to further improve quality in all fields.

### Common values

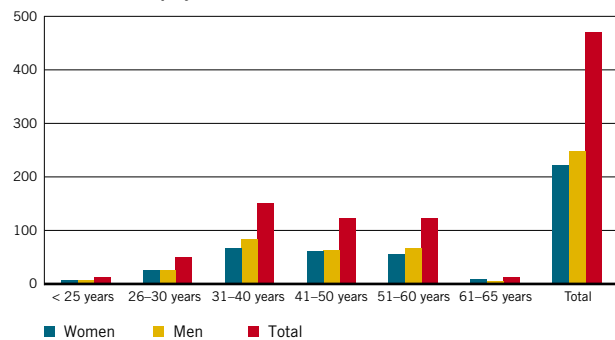
A successful organisation is based on dedicated employees and good leadership. During 2000 a number of catchwords were formulated to describe the corporate culture the Riksbank is aiming for. These catchwords are openness, competence, co-operation, overall view, initiative and respect. The way we work together affects how well the work is done and thus how the Riksbank's objectives are fulfilled.

### Competence development

Every employee is responsible for his or her own development and every manager has the task of leading and supporting the development of the staff. During 2000 a new method for personal development talks has been worked out and this puts greater emphasis on goals and development plans for individual employees as well as providing an opportunity for mutual feedback.

Education is an important part of competence development.

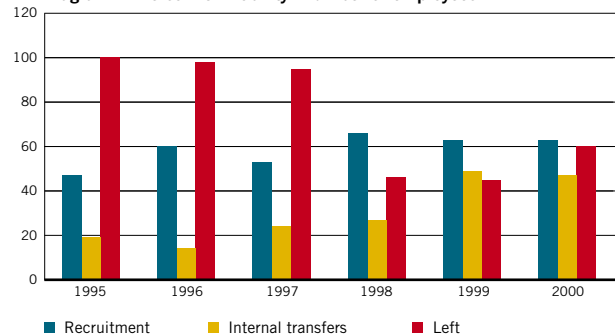
Diagram 1. Age structure for Riksbank staff December 2000.  
Number of employees



Source: The Riksbank.

Note. At the end of 2000, the number of full-time posts was 411.

Diagram 2. Personnel mobility. Number of employees



Source: The Riksbank.

Note. The statistics are affected by a major organisational change that took place in 1995 and by the formation of the company Pengar i Sverige AB in 1999.

Taking part in external courses provides valuable skills, ideas and incentives. The Riksbank also organises internal courses that fulfil more specific requirements and also comprise points of contact between employees from different fields of work. One example is the course entitled Modern Central Banking, which is specially designed for the bank and deals with monetary policy and the role of central banks. During the year there has also been the start of a mentor programme for women. The purpose is to get more women interested in managerial posts and thus broaden the base for recruiting new managers.

Work tasks that develop employees and co-operation with more experienced colleagues constitute an important part of competence development. One example is international co-operation, where the Riksbank participates in around 70 committees and working groups. Representing the Riksbank in these contexts and working together with colleagues from other countries and cultures gives employees good opportunities to use and develop their competence.

### Attracting and retaining good employees

The Riksbank's capacity to attract and retain good employees depends on the ability to offer interesting and challenging work tasks, good opportunities for development and a pleasant working climate. The development towards greater independence and openness has reinforced the positive image of the Riksbank's quality and know-how.

One measure of the Riksbank's attractiveness as a work place is the Swedish version of the Universum Graduate Survey's annual opinion poll, in which economics students rate the most interesting employers. In the year 2000 the Riksbank achieved 14<sup>th</sup> place among 120 companies, an improvement of 7 places on 1999. Among students specialising in national economy, the Riksbank is the most popular work place.

The Riksbank offers an environment where employees have the opportunity to develop and use their creativity. The physical working environment is in harmony with the corporate culture, based on co-operation and respect for the individual. The architectural qualities of the building, with a pleasant environment, light colour scheme and high quality materials, are combined with practical solutions and modern technology.



**The Riksbank offers an attractive environment.** The architecture and decoration of the Riksbank building make it a unique work place and arouse interest from many quarters. Groups of students from architecture and fine arts courses are regular visitors.

## The General Council – setting frameworks and monitoring operations

The General Council of the Riksbank consists of eleven members and an equal number of deputy members, who have the same mandate period as Riksdag members. The General Council is appointed by the Riksdag. The members are Sven Hulterström (Chairman), Johan Gernandt (Vice Chairman), Sinikka Bohlin, Jörgen Andersson, Kenneth Kvist, Mats Odell, Ingegerd Troedsson, Britt Bohlin, Peter Egardt, Kjell Nordström and Susanne Eberstein. The deputy members are Reynoldh Furustrand, Stephan Tolstoy, Carin Lundberg, Sven-Erik Österberg, Siv Holma, Göran Hägglund, Margaretha af Ugglas, Marianne Carlström, Hans Gustaf Wessberg, Lars U. Granberg and Marie Granlund.

### Functions

The primary function of the General Council is to appoint the members of the Executive Board and establish the employment terms for Board members. The General Council also has the right to make the decision to dismiss a Board member from service. In addition, the General Council determines the working order of the Riksbank, which stipulates the bank's division into different departments and sets certain guidelines for the bank's operations. The General Council manages the work of the General Council's Audit Unit, which examines the work of the Riksbank and in particular the Executive Board on behalf of the General Council. This covers, for instance, ensuring that the Working Order is followed and that the members of the Executive Board carry out their duties in the proper manner. The Audit Unit's scrutiny may lead to points of view that the General Council passes on to the Executive Board for action. This scrutiny gives the General Council a control function. The General Council also presents proposals to the Riksdag on the allocation of the Riksbank's net revenue and decides on the design of the banknotes and coins issued by the Riksbank.

### The General Council in 2000

The General Council met on twelve occasions during 2000. 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. Decisions taken by the General Council include changes to the Riksbank's



Sven Hulterström



Johan Gernandt

Working Order as a result of the bank's new organisation. The Audit Unit has examined the Riksbank's appropriation of net revenue, the adherence to the Working Order and the members of the Executive Board's discharge of their duties. During 2000, the General Council decided on the design of upgraded 100 kronor and 500 kronor banknotes, which will be issued in 2001, as well as on a new portrait of His Majesty the King on the 1 krona and 10 kronor coins. The new coins will also be issued during 2001.

Part of the General Council's work in January 2000 involved a visit to the Bank of England together with the members of the Executive Board.

In January 2001, the General Council appointed Kristina Persson as new member of the Executive Board from 2001, with a mandate period of six years.



Ingegerd Troedsson



Mats Odell



Britt Bohlin



Sinikka Bohlin



Peter Egardt



Kenneth Kvist



Kjell Nordström



Susanne Eberstein



Jörgen Andersson



## The Executive Board – the management of the Riksbank

**The Riksbank has been managed by an Executive Board, which is appointed by the General Council, since 1999. The Executive Board is responsible for the Riksbank's operations and makes all monetary policy decisions.**

All decisions are made collectively at meetings of the Executive Board. The individual members of the Board do not have the right to make decisions outside of Board meetings, unless the Board has delegated an issue to a particular member.

The Chairman and Vice Chairman of the General Council may attend Executive Board meetings and have the right to speak, but not to make proposals or vote. Prior to making a monetary policy decision of major importance, the Riksbank shall inform the relevant minister, who is normally the Finance Minister.

The Executive Board presents a written report on monetary policy to the Riksdag Finance Committee at least twice a year. The Inflation Report was used as a report to the Riksdag in 2000 and supplemented with a public hearing in the Finance Committee attended by the Governor of the Riksbank.

### The Executive Board in 2000

Since 1 January 1999, the six members of the Riksbank's Executive Board are: Urban Bäckström, Chairman and Governor of the Riksbank with a mandate period of six years; Lars Heikensten, First Vice Chairman with a mandate period of five years; Eva Srejber, Second Vice Chairman with a mandate period of four years; Villy Bergström with a mandate period of three years; Kerstin Hessius with a mandate period of two years and Lars Nyberg, who was re-elected in December 1999 for a mandate period of six years with effect from January 2000. Kerstin Hessius announced in the autumn that she would not stand for re-election when her mandate period expired. The General Council then appointed Kristina Persson with a mandate period of six years.

In connection with the reorganisation of the Riksbank in June 2000, there was a change in the areas of responsibility for the members of the Executive Board. Below follows a description of the members' areas of responsibility since then.

Urban Bäckström is Chairman of the Executive Board and the Governor of the Riksbank and is responsible for preparing matters relating to the bank's legal affairs. 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 and a member of the International Monetary Fund's governing board.

Lars Heikensten is responsible for the preparation of monetary and exchange rate policy, issues regarding the Riksbank's financial risk management and issues concerning the ownership of the Riksbank's subsidiaries AB Tumba Bruk and Pengar i Sverige AB. Lars Heikensten's assignments also include acting as a member of the EU Economic and Financial Committee and as the Governor's alternate in the IMF, G10 and the ECB.

Eva Srejber is responsible for the preparation and co-ordination of international matters, the co-ordination of the financial sector's EMU preparations and for internal and external information. In addition, Eva Srejber is responsible for administrative issues. She assists the Governor at the Bank for International Settlements and has functions in the ECB.

Villy Bergström is responsible for preparing research matters, for the Riksbank's internal auditing and for the Riksbank's submissions on matters sent to the Riksbank for comment.

Lars Nyberg is responsible for the preparation of matters concerning financial stability. He is Chairman of the Board for the Riksbank's subsidiaries AB Tumba Bruk and Pengar i Sverige AB, and also has international assignments with an emphasis on issues regarding financial stability, for instance within the Bank for International Settlements.

Kerstin Hessius was responsible for the preparation of matters concerning the Riksbank's market operations, including issues concerning means of payment, and for IT matters.

The Executive Board met on 32 occasions during 2000. An important part of the Executive Board's work consists of external communications. During 2000 the six Board members gave more than one hundred speeches, 37 of them written and made available on the Riksbank's website. The speeches have mostly dealt with current monetary policy issues, but also other subjects, including EMU/EU, the new economy and financial stability. In addition to the public minutes from the Executive Board's meetings, the written speeches comprise the primary channel for the individual Board members to signal their views on future monetary policy.



Eva Srejber, Master of Political Science. Previously: Deputy CEO at Swedbank, Nordic-Baltic representative at IMF, managerial posts at the Riksbank.



Villy Bergström, Associate Professor in Economics. Previously: Director of the Trade Union Institute for Economic Research, Editor-in-Chief of Dala Demokraten newspaper.



Lars Heikensten, D. Ec. Previously: Chief economist, Svenska Handelsbanken and Swedish National Debt Office, head of Economics Dept., Ministry of Finance.



Kerstin Hessius, MBA. Previously: CEO of Östgöta Enskilda Kapitalförvaltning, CEO of Alfred Berg Transferator AB, journalist at Finanstidningen.



Urban Bäckström, MBA. Previously: Under-Secretary of State at the Ministry of Finance, CEO for Consensus Fondkommission, CFO at Shareholders' Association.



Lars Nyberg, Associate Professor in Economics. Previously: Deputy CEO at Svenska Handelsbanken and Swedbank, CEO of Länsförsäkringsbolagens Förening.



"During 2000 we have not only succeeded in rationalising the traditional operations according to plan, we have also seen a number of important breakthroughs for the future of cash handling," says Gunnar Malm, MD of Pengar i Sverige AB. "We will be in the forefront of developing cash handling, just as the Riksbank intended when the company was formed."



Operations are pursued in four regions, containing a total of seven offices in Stockholm, Falun, Härnösand, Luleå, Linköping, Mölndal and Malmö. There are also service points in Jönköping, Växjö, Karlstad and Visby. The head office is located in Alvik, Stockholm.

#### The most important services

- Supplying banknotes and coins
- Value dating and checking authenticity
- Handling daily takings and change
- Cash dispenser services
- Night safe handling
- Set-off of surpluses and deficits

## Pengar i Sverige AB

Pengar i Sverige AB is a wholly-owned subsidiary of the Riksbank and began its operations on 1 June 1999, when the Riksbank's handling and distribution of cash was transferred to the company. Pengar i Sverige AB shall pursue and develop cash management on businesslike terms and thus contribute to improving its efficiency from a socio-economic aspect. At the same time, the Riksbank's role as authority can be streamlined now that the business activities have been separated. The Riksbank's long-term aim is to sell Pengar i Sverige AB.

#### Business concept

The company's business concept is to

- process, distribute and store banknotes and coins on behalf of the Riksbank
- sell and supply solutions for cash handling to banks, post offices and retailers.

#### Operations

Pengar i Sverige specialises in cash handling. Its operations include delivery, storing and packing of banknotes and coins, storage and value dating, authenticity checks, counting daily takings, maintaining night safes and filling up cash dispensers. The company's largest clients are the retail trade, banks and post offices. The company has an agreement with the Riksbank to store some of the Riksbank's cash reserve, to receive and supply banknotes and coins to post offices and banks, as well as being responsible for the settlement of transactions against the Riksbank's cash reserve in the national RIX system.

The Pengar i Sverige Group consists of the parent company Pengar i Sverige AB and its subsidiary PSAB Fastighetsförvaltning AB, which in turn owns the office buildings in which the majority of the operations are pursued.

The company's organisation consists of central functions for Marketing, Personnel, Security, Finance, Transport, IT and Technical support.

During 2000 the number of full-time posts averaged 254.

### 2000 in brief

During the financial year 2000, the business operations developed rapidly alongside the traditional Riksbank handling. A number of contracts were signed for counting daily takings for the retail trade. Since May 2000, the company has been responsible for transporting foreign currency for the four large commercial banks. In June the company took over SEB's centres for counting daily takings from the retail trade.

During the year a joint venture IT company was formed together with TietoEnator E-finance Partner AB. This has the primary task of replacing the current computer system for the settlement and stock-keeping of the Riksbank's cash, as well as being responsible for future maintenance, support and development. In addition, a joint venture company has been formed together with Sambox in Karlstad.

There has been a considerable improvement in the efficiency of operations over the year, which has involved, for instance, reducing the number of offices and employees. From the start in June 1999, net sales per employee have increased by approximately 40 per cent.

### Future developments

The total costs for cash handling in society are calculated at SEK 11–12 billion.

The economic growth has led to an increase in demand for cash parallel to credit card payments and transactions over the Internet. At the same time, developments in the banking sector are moving towards a reduction in cash handling in their own operations. Altogether, this provides considerable opportunity for Pengar i Sverige AB.

At the moment, work is underway on developing new transport solutions. Routines for co-ordinated transports between banks, post offices and Pengar i Sverige AB are being prepared. A new concept of security bags that can be transported in normal private cars is being introduced. The company will in future concentrate more on offering total solutions which will take into account the opportunities for improving the customer's total cash handling operations.



**Safe and simple transports.** The new security bag can enable valuables to be transported in normal private cars. The bag can be traced and also has inbuilt ink cartridges that can be triggered at a distance.



**Large market for cash handling.** Approximately SEK 90 billion in banknotes and coins is in circulation today between households, the retail trade and the banks. The costs for handling alone are estimated at SEK 11–12 billion.



PENGAR I SVERIGE



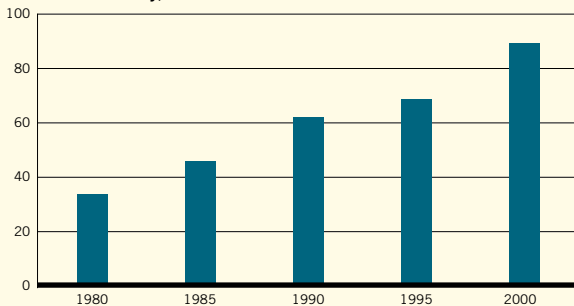


"Tumba bruk's result for 2000 was satisfactory," says Lennart Bergstedt, MD of Tumba bruk. "Our investment and rationalisation programme has proceeded according to plan. However, there is a considerable overcapacity on the open market for both banknotes and banknote paper, which means we will face considerable challenges in coming years."

**Production during 2000**

The Mint minted:	124,839,200 ordinary coins of various denominations
The paper mill produced:	2,515 tonnes of banknote paper, 1,356 tonnes of fine paper and security paper
The printing works supplied:	310,012,000 Swedish and foreign banknotes 1,069,288 passbooks

**Cash in society, SEK billion**



Source: The Riksbank.

The demand for cash has risen steadily during the latter part of the 20<sup>th</sup> century. There is a long way to go to the cashless society.

# AB Tumba Bruk

AB Tumba Bruk is a wholly-owned subsidiary of the Riksbank. The company was founded in 1755 and works in a unique environment south of Stockholm. The main products are paper for banknotes and banknotes that are mainly sold on the international market.

## Business concept

The company's business concept is to

- produce and sell banknotes and security paper
- print banknotes for the Riksbank's requirements and for export
- mint the Swedish coins and also commemorative coins and medals for commercial sale.

## Operations

Tumba Bruk's operations comprise the paper mill, printing works and the Mint.

The paper mill and printing works are located in Tumba and the Swedish Mint is located in Eskilstuna. The passbooks for Swedish passports are also produced in Tumba.

During 2000 the number of full time posts averaged 325.

## 2000 in brief

During 2000 the paper mill contributed to 40 per cent of total sales, the printing works contributed 33 per cent and the Mint 27 per cent.

Tumba Bruk has supplied banknote paper to around ten different countries during 2000. The paper mill's export sales comprised 90 per cent of the total sales value.

The paper mill began using a new foiling plant, which enables the mill to supply foiled paper, for instance, for the production of euro notes in other countries.

The printing works increased its sales abroad to 30 per cent of the total sales value. Banknotes were sold to Congo and Uganda, amongst other countries. Sales of Swedish banknotes and passbooks remained roughly the same as in 1999.

The Swedish Mint increased its sales of ordinary coins to the Riksbank in 2000. In addition, it launched a millennium coin in both a gold and a silver version, containing portraits of King Carl XVI Gustaf and Crown Princess Victoria. There has been considerable interest in these coins.

AB Tumba Bruk improved its results in both the printing works and the Mint during 2000. The paper mill's result remained unchanged from 1999.

It has been necessary to strengthen personnel competence in order to meet the requirements of the market and to be able to utilise an increasingly advanced range of machinery. Large resources have therefore been invested in developing the staff and the organisation.

### Future developments

The total global consumption of banknotes is estimated at approximately 95 billion banknotes a year, with a growth of around 3 per cent a year. Tumba Bruk has contracts for several export orders. Production of an order from Uganda for 10,000 shilling notes started in January 2001. The production capacity of the printing works will be well utilised, partly through the work on upgrading the Swedish 500 kronor and 100 kronor banknotes. However, the capacity utilisation at the paper mill is unsatisfactory at the beginning of 2001.

Tumba Bruk will make two further major investments in the paper mill during 2001. A completely new cutting and packing line is being installed in the paper mill to increase capacity and efficiency. A plant for examining, sorting, packing and checking will be installed in the printing works, to enable scrutiny of every single banknote. This is necessary to meet the market's quality requirements.



**Africa a large market.** Africa is one of Tumba bruk's main markets for ready-printed banknotes. During 2000, the company sold notes to Congo and Uganda.



**Increasing demands for security.** A foiling machine was put into operation in 2000. Foil strips that are heated and embossed onto the banknote paper, are an important security detail in modern banknotes.



# 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 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. According to Government Bill 1997/98:40, without prejudice to the statutory objective of price stability, the Riksbank is also to support general economic policy with a view to achieving sustainable growth and high employment.

The Riksbank shall also promote a safe and efficient payment system and therefore regularly provides an account of its views on developments in the financial system. The Riksbank also has the practical responsibility for implementing large payments between the banks and for cash supply in Sweden. The manufacture, as well as distribution and storage of cash is done by the bank's wholly owned subsidiaries AB Tumba Bruk and Pengar i Sverige AB respectively.

The Riksbank takes part in international co-operation, mainly within the IMF, BIS/G10 and the EU and carries out an extensive production of financial statistics.

The Riksbank carries out its activities in Stockholm. Tumba Bruk has its operations in Tumba and Eskilstuna. Pengar i Sverige is organised into four regions and seven offices: Stockholm, Falun, Härnösand, Luleå, Linköping, Mölndal and Malmö. In addition, there are four service points, in Jönköping, Växjö, Karlstad and Visby.

## 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 2000, 32 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 2000, the General Council met on twelve occasions.

The General Council decides on the salary and other conditions of employment of the members of the Executive Board.

The General Council leads the activities at the Council's own Audit Unit and makes proposals to the Riksdag on the allocation of the Riksbank's net revenue. The General Council also decides the Working Order for the Riksbank. The Working Order specifies the Riksbank's overall organisation and regulates certain managerial and decision-making matters.

The General Council elects six full-time members to the Executive Board for a period of six years. The General Council appoints the Chairman of the Executive Board, who shall at the same time be Governor of the Riksbank. The Chairman and Vice Chairman of the General Council have the right to attend and speak at Executive Board meetings, but not the right to vote or make proposals.

Matters that are not decided upon by the General Council are decided on by the Executive Board. The Executive Board manages the Riksbank and decides on all monetary policy matters. Decisions are made collectively by the Executive Board. The Executive Board can decide that certain matters may be decided by the Governor or some other official at the Riksbank. Board members may not seek nor accept instructions when conducting monetary policy. The Riksbank shall inform the relevant minister appointed by the government when taking important monetary policy decisions.

The Executive Board adopts the Riksbank's budget and submits it for the attention of the Riksdag, the Office of the Parliamentary Auditors and the General Council. The Executive Board also presents an annual report to these bodies on the previous financial year. This annual report shall contain a profit and loss account, a balance sheet, a directors' report and an account of monetary and exchange rate policy as well as a report on how the Riksbank has worked to promote a safe and efficient payment system. In addition, the Executive Board presents a written report on monetary policy to the Riksdag's Finance Committee at least twice a year.

On 1 June 2000, the Riksbank was reorganised to achieve a

clearer focus on the objectives and tasks stated in the Sveriges Riksbank Act and to improve organisational and managerial efficiency. The operations of the previous Economics Department, Monetary and Exchange Rate Policy Department, Payment System Department and the Financial Statistics Department were divided into three new, larger departments: the Financial Stability Department, the Market Operations Department and the Monetary Policy Department. Together with 'mergers' within the bank's administration, this led to a reduction in the number of departments from 16 to 11.

Each department is led by a Head of Department. These heads of department make decisions, or delegate the right to make decisions within their sphere of activity. They also ensure that matters to be decided upon by the Executive Board are prepared and presented. As a complement to the line organisation, there are interdepartmental groups for the preparation of issues affecting the bank as a whole.

### Personnel

At the end of 2000, 469 persons were employed at the Riksbank. In 1999, the corresponding figure was 466 persons. Of

the employees on 31 December 2000, 47 per cent were women and 53 per cent men. At the end of 2000, the number of full-time posts amounted to 411 (422).

Personnel turnover remained largely unchanged from 1999. During 2000 the Riksbank recruited 63 (63) persons externally and 47 (49) internally. Of the 60 persons who left in 2000, 54 left at their own request and 6 retired.

### Result and position

The Riksbank's result for 2000 was SEK 20,309 million.

The Riksbank's balance-sheet total increased by SEK 4,490 million during 2000 and amounted to SEK 233,255 million on 31 December 2000.

Further information on the Riksbank's result and position can be obtained from the section on the Balance Sheet and Profit and Loss Account.

# The Balance Sheet and the Profit and Loss Account

## Comments on the accounts

The Riksbank is not a profit-making authority; the result that arises is the consequence of the Riksbank's tasks as a central bank.

### *Comments on the Balance Sheet*

The balance sheet total increased by SEK 4,490 million during 2000. Events during the year that notably affected the balance sheet are reported below.

The foreign currency reserve, that is to say, the item "Claims on residents outside Sweden denominated in foreign currency", increased by SEK 14,652 million during 2000, mainly as the result of a rise in market prices.

The item "Main refinancing operations" varies according to the banking system's need of liquidity. During 2000, the Riksbank provided the banking system with liquidity through regular repo operations.

The item "Securities of residents in Sweden denominated in Swedish kronor" consists of treasuries. This holding is not used to implement monetary policy with the current application of the steering interest rates system and after the Swedish National Debt Office took over the market maintenance transactions, and it is therefore not renewed on maturity.

The item "Banknotes and coins in circulation" varies according to the demand for this means of payment. The volume of notes in circulation normally peaks around the end of the year, partly due to the increased retail turnover. The issuing of notes and coins can be seen as an interest-free deposit.

The Riksdag decided to allocate net revenue for 1999 in accordance with the General Council's proposal, which meant that SEK 9,800 million was transferred to the Treasury, SEK 2,978 million was transferred to the Contingency Fund and SEK 8,853 million was transferred to the Balancing Account.

### *Comments on the Profit and Loss Account*

The Riksbank's net revenue for 2000 amounted to SEK 20,309 million (SEK 3,925 million).

Interest income for 2000 totalled SEK 9,572 million, which was an increase on the previous year of SEK 1,225 million. This was mainly due to higher earnings on the foreign currency reserve.

During the year 2000 interest rates in the USA, the Euro area, Japan and the UK have mainly fallen. Overall, this has meant a positive price effect for foreign operations of SEK 4,553 million. Interest rates in Sweden have also fallen during the year, which entailed a positive price effect for domestic operations of SEK 578 million. SEK 4,983 million of the total price effect of SEK 5,131 million is unrealised result.

During 2000, the krona weakened in total against the currencies in the foreign currency reserve, which resulted in a positive exchange effect of SEK 6,224 million.

The gold valuation effect for 2000 amounted to SEK 654 million and consists of unrealised result relating to the change in market valuation of the gold holding in 2000.

One per cent higher/lower security interest rates at the year-end would have deteriorated/improved the result (the price effect) by approximately SEK 8,500 million and a 10 per cent stronger/weaker krona would have deteriorated/improved the result (exchange rate effect) by approximately SEK 14,400 million.

The risk taking in the foreign currency reserve management is restricted by the limits imposed by the Executive Board, which inter alia regulates the currencies and counterparties in which assets may be invested.

## Accounting principles

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

### *Changes in accounting principles*

In accordance with generally accepted accounting principles, the Riksbank will report its pension obligations as a liability instead of contingent liability, as of 31 December 2000. Otherwise, the accounting principles have not been changed during 2000.

### *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-day accounting. Lending and borrowing transactions, including repo transactions, are booked on the settlement date.

#### *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 purchase price is registered as a receivable.

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		31-12-2000	31-12-1999
<b>Gold</b>	Note 1	15,428	14,774
<b>Claims on residents outside Sweden denominated in foreign currency</b>			
Receivables from the IMF	Note 2	10,671	12,949
Balances with banks and security investments	Note 3	141,948	125,018
		152,619	137,967
<b>Lending to monetary policy counterparties denominated in Swedish kronor</b>			
Main refinancing operations	Note 4	40,871	45,596
Fine-tuning operations	Note 5	2,285	-
Marginal lending facility	Note 6	48	37
		43,204	45,633
<b>Securities of residents in Sweden denominated in Swedish kronor</b>			
	Note 7	20,728	28,998
<b>Other assets</b>			
Tangible fixed assets	Note 8	372	354
Financial assets	Note 9	667	767
Off-balance sheet instruments	Note 10	-	13
Accruals and deferred expenditure	Note 11	17	5
Other assets	Note 12	220	254
		1,276	1,393
<b>Total assets</b>		<b>233,255</b>	<b>228,765</b>
<b>Liabilities and capital, SEK million</b>		<b>31-12-2000</b>	<b>31-12-1999</b>
<b>Banknotes and coins in circulation</b>			
Banknotes	Note 13	93,229	94,237
Coins	Note 14	4,434	4,213
		97,663	98,450
<b>Liabilities to monetary policy counterparties denominated in Swedish kronor</b>			
Deposit facility	Note 15	108	257
Fine-tuning operations	Note 16	-	4,200
		108	4,457
<b>Liabilities to residents outside Sweden denominated in Swedish kronor</b>			
	Note 17	159	156
<b>Liabilities to residents in Sweden denominated in foreign currency</b>			
	Note 18	1,432	2,018
<b>Liabilities to residents outside Sweden denominated in foreign currency</b>			
	Note 19	4,105	5,256
<b>Counterpart of special drawing rights allocated by the IMF</b>			
	Note 20	3,066	2,899
<b>Other liabilities</b>			
Off-balance sheet instruments	Note 21	130	-
Accruals and deferred income	Note 22	6	2
Liabilities on securities settlement proceeds	Note 23	493	-
Other liabilities	Note 24	603	69
		1,232	71
<b>Balancing account and capital</b>			
Balancing account	Note 25	42,193	51,046
Capital	Note 26	62,988	60,487
		105,181	111,533
<b>Result for the year</b>		<b>20,309</b>	<b>3,925</b>
<b>Total liabilities and capital</b>		<b>233,255</b>	<b>228,765</b>

Memorandum items, see Note 39.

# Profit and Loss Account

<b>SEK million</b>		2000	1999
Interest income	Note 27	9,572	8,347
Interest expense	Note 28	-548	-393
Net result of financial operations	Note 29	12,009	-3,352
Fees and commissions income	Note 30	12	53
Fees and commissions expense	Note 31	-7	-7
Income from equity shares	Note 32	38	36
Other income	Note 33	21	17
<b>Total net income</b>		<b>21,097</b>	<b>4,701</b>
Staff costs	Note 34	-253	-271
Administrative expenses	Note 35	-160	-173
Depreciation of fixed assets	Note 36	-62	-69
Banknote and coin expenses	Note 37	-209	-138
Other expenses	Note 38	-104	-125
<b>Total expenses</b>		<b>-788</b>	<b>-776</b>
<b>Result for the year</b>		<b>20,309</b>	<b>3,925</b>

## Notes

SEK million

### Note 1 Gold

	31-12-2000	31-12-1999
Quantity		
Troy ounces (million)	5.96	5.96
Price		
USD per ounce	272.79	290.91
SEK/USD	9.49	8.52
Book value	15,428	14,774

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

### Note 2 Receivables from the IMF

	31-12-2000	31-12-1999
Special Drawing Rights	2,039	2,662
Reserve position in the IMF	8,432	10,085
Other receivables	137	124
Accrued interest	63	78
Total	10,671	12,949

The Riksbank holds special drawing rights of SDR 165 million. Sweden's total capital contribution (quota) to the IMF amounts to SEK 29,560 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 funds that have been invested in a temporary account pending consent from the Riksdag for the Riksbank to participate in the financing of concessional loans from the IMF.

### 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 balance 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 consisted at the end of 2000/beginning of 2001 of treasury bonds.

### Note 8 Tangible fixed assets

	31-12-2000	31-12-1999
<b>Properties</b>		
Acquisition value	295	305
Accumulated depreciation	-95	-111
Book value properties	200	194
<b>Machinery and equipment</b>		
Acquisition value	401	351
Accumulated depreciation	-229	-191
Book value machinery and equipment	172	160
Total	372	354

Following the sale of one property, Uppsala, during 2000 there remained two properties in the Riksbank's possession at the end of 2000; Stockholm and Gävle.

### Note 9 Financial assets

	31-12-2000	31-12-1999
<b>Shares and participation rights</b>		
AB Tumba Bruk		
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	300	400
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	667	767

Shares and participation rights are valued at the lowest of the acquisition value and the real value on the closing day. During 2000, the shareholding in PSAB Pengar i Sverige has been written down by SEK 100 million (SEK 19 million).

### Note 10 Off-balance sheet instruments

This item is used to report the net market value of foreign exchange and/or interest futures positions when the market value is positive.

### 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 Pengar i Sverige AB, SEK 174 million (SEK 168 million).

**Note 13 Banknotes**

The value of banknotes in circulation, by denomination:

	31-12-2000	31-12-1999
1,000 kronor	46,217	46,791
500 kronor	35,943	35,006
100 kronor	8,216	9,702
50 kronor	1,074	1,008
20 kronor	1,467	1,417
10 kronor	232	233
5 kronor	80	80
	93,229	94,237

**Note 14 Coins**

The value of coins in circulation, by denomination:

	2000-12-31	1999-12-31
10 kronor	1,653	1,561
5 kronor	996	953
2 kronor	8	8
1 kronor	987	938
0.50 kronor	232	221
Commemoration coins	558	532
	4,434	4,213

**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.

**Note 21 Off-balance sheet instruments**

This item is used to report the net market value of foreign exchange and/or interest futures positions when the market value is negative.

**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**

	31-12-2000	31-12-1999
Pension liability	477	-
Holiday pay liability	18	18
Accounts payable – trade	19	14
Other	89	37
	603	69

The pension liability has been calculated by pension institutes and includes SEK 26 million regarding personnel transferred to Pengar i Sverige AB in 1999, as well as SEK 10 million regarding personnel transferred to AB Tumba Bruk in 1971. The pension liability was reported as a contingent liability in the previous year.

The item Other includes SEK 40 million relating to funds included in the transfer to the Treasury totalling SEK 9,800 million stated in the Riksdag's decision on allocation of the Riksbank's net revenue for 2000, but which the Riksbank has been authorised to pay directly to an institute for Jewish studies when the details regarding the foundation of the institute and the payment are complete.

**Note 25 Balancing account**

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



**Note 26 Capital**

The capital consists of:

	31-12-2000	31-12-1999
Capital	1,000	1,000
Reserve fund	500	500
Contingency fund		
Allocations from net revenue	48,387	45,863
Write-up of gold reserve	12,686	12,686
Write-up of fixed assets	180	203
Write-up of BIS shares	235	235
	62,988	60,487

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 net revenue set in the same year. It is also used for entering the amounts of asset write-ups. During 2000 a transfer has been made between the items write-up of fixed assets and allocation of net revenue at SEK 23 million due to the year's depreciation and write-downs, as well as sales of fixed assets. In addition, for 2000 the reporting of the pension liability, amounting to SEK 477 million, in the balance sheet has been transferred to the allocation of net revenue part of the contingency fund.

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 Jan.	51,046	60,487	3,925	115,458
Transfer to the Treasury			-9,800	-9,800
Transfer to/from				
Balancing account	-8,853		8,853	0
Contingency fund		2,978	-2,978	0
Entering of pensions as liability		-477		-477
Result for the year			20,309	20,309
Balance at the end of the year	42,193	62,988	20,309	125,490

**Note 27 Interest income**

	2000	1999
Foreign securities	6,702	5,382
Domestic securities	1,484	1,790
Main refinancing operations	1,359	1,142
Other	27	33
	9,572	8,347

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

**Note 28 Interest expense**

	2000	1999
Foreign liabilities	-512	-365
Domestic liabilities	-36	-28
	-548	-393

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

**Note 29 Net result of financial transactions**

	2000	1999
Price effect		
foreign securities	4,553	-4,185
domestic securities	578	-2,145
Exchange rate effect	6,224	2,038
Gold valuation effect	654	940
	12,009	-3,352

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 2000.

**Note 30 Fees and commissions income**

This item mainly includes annual fees and transaction fees with regard to the RIX system. During 1999 the item also included compensation with regard to cash management services for the period until this operation was transferred to Pengar i Sverige AB. In the previous year, this income was reported under the item "Other income".

**Note 31 Fees and commissions expense**

This item mainly includes expenses for external portfolio managers and custody accounts.

In the previous year, these expenses were reported under the item "Administrative expenses".

**Note 32 Income from equity shares**

Dividend has been received from AB Tumba Bruk and BIS at SEK 9 million and SEK 29 million respectively.

**Note 33 Other income**

Other income relates primarily to remuneration from Pengar i Sverige AB regarding rent and IT services.

**Note 34 Staff costs**

	2000	1999
Salaries and benefits	-142	-161
Pension costs	-35	-33
Social security charges	-53	-57
Other	-23	-20
	-253	-271

Salaries and benefits to the six members of the Executive Board totalled SEK 9 million in 2000 (SEK 9 million).

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 one member of the Executive Board, the Riksbank has instead paid a pension premium 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.

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 from other employment during this period.

### Note 35 Administrative expenses

	2000	1999
Information, hospitality	-11	-13
Transport, travel	-17	-18
Consultants, other services	-40	-47
IT operation	-45	-44
Economics prize	-15	-13
Other	-32	-38
	-160	-173

Information expenses include costs for the Riksbank's regular publications (the Inflation Report the Financial Stability Report, the Annual Report, Economic 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 209 million, SEK 90 million is for banknotes and SEK 119 million for coins.

### Note 38 Other expenses

This item mainly consists of a write-down of SEK 100 million (SEK 19 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 2,014 million have been pledged in connection with foreign securities repos.

Securities with a market value equivalent to SEK 88 million have been pledged as marginal collateral.

Gold with a market value equivalent to SEK 9,775 million has been lent, including SEK 2,071 million in the form of gold repos.

#### *Contingent liabilities*

None

#### *Commitments*

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

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 million<sup>1</sup>.

Undertaking to lend up to USD 312.5 million<sup>1</sup> to South Korea as part of a second line of defence.

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 2,449 million (SEK 0 million) with a market value of SEK 90 million (SEK 0 million). Currency forwards with a negative value amounted to a nominal value of SEK 6,089 (SEK 0 million) with a market value of SEK 219 million (SEK 0 million).

Outstanding forward interest rate contracts with a positive value totalled SEK 1,310 million (SEK 4,583 million) in nominal terms, and had a market value of SEK 1 million (SEK 29 million).

Forward interest rate contracts with a negative value totalled SEK 3,532 million (SEK 2,400 million), and had a market value of SEK 1 million (SEK 16 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.

An agreement on leasing PCs to staff at the Riksbank was entered into in 1998, with the option to purchase the computers after three years at their current market value.

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

1. 2000 year-end exchange rates expressed in SEK: EUR 8.83, SDR 12.34 and USD 9.49.

# Five-year overview

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

<i>Balance sheet, SEK million</i>	31-12-00	31-12-99	31-12-98	31-12-97	31-12-96
<b>ASSETS</b>					
<b>Gold</b>	15,428	14,774	13,834	10,825	11,933
<b>Claims on residents outside Sweden denominated in foreign currency</b>					
Receivables from the IMF	10,671	12,949	13,707	9,242	6,454
ECU receivables from the ECB/EMI	-	-	-	10,598	10,578
Balances with banks and security investments	141,948	125,018	108,705	70,212	122,275
	152,619	137,967	122,412	90,052	139,307
<b>Lending to monetary policy counterparties denominated in Swedish kronor</b>					
Main refinancing operations	40,871	45,596	41,581	36,216	-
Fine-tuning operations	2,285	-	2,240	4,090	9,402
Marginal lending facility	48	37	25	27	236
	43,204	45,633	43,846	40,333	9,638
<b>Securities of residents in Sweden denominated in Swedish kronor</b>	20,728	28,998	32,842	53,088	59,045
<b>Other assets</b>					
Tangible fixed assets	372	354	720	700	693
Financial assets	667	767	367	475	475
Off-balance sheet instruments	-	13	30	1	3
Accruals and deferred expenditure	17	5	12	-	-
Other assets	220	254	311	221	189
	1,276	1,393	1,440	1,397	1,360
<b>TOTAL ASSETS</b>	<b>233,255</b>	<b>228,765</b>	<b>214,374</b>	<b>195,695</b>	<b>221,283</b>

<b>LIABILITIES AND CAPITAL</b>					
<b>Banknotes and coins in circulation</b>					
Banknotes	93,229	94,237	82,288	78,986	77,135
Coins	4,434	4,213	3,980	3,809	3,656
	97,663	98,450	86,268	82,795	80,791
<b>Liabilities to monetary policy counterparties denominated in Swedish kronor</b>					
Deposit facility	108	257	84	130	461
Fine-tuning operations	-	4,200	-	790	-
Other deposits	-	-	1,595	1,041	1,007
	108	4,457	1,679	1,961	1,468

<i>cont. balance sheet, SEK million</i>	31-12-00	31-12-99	31-12-98	31-12-97	31-12-96
<b>Debt certificates issued</b>	-	-	-	-	32,040
<b>Liabilities to residents outside Sweden denominated in Swedish kronor</b>	159	156	230	286	287
<b>Liabilities to residents in Sweden denominated in foreign currency</b>	1,432	2,018	-	-	-
<b>Liabilities to residents outside Sweden denominated in foreign currency</b>	4,105	5,256	3,641	322	1,567
<b>Counterpart of SDRs allocated by the IMF</b>	3,066	2,899	2,838	2,641	2,448
<b>Other liabilities</b>					
Off-balance sheet instruments	130	-	-	34	634
Accruals and deferred income	6	2	7	-	-
Liabilities on securities settlement proceeds	493	-	208	-	-
Other liabilities	603	499	781	952	732
	1,232	501	996	986	1,366
<b>Balancing account and capital</b>					
Balancing account	42,193	51,046	47,422	46,993	42,419
Capital	62,988	60,057	49,437	45,031	40,267
	105,181	111,103	96,859	92,024	82,686
<b>Result for the year</b>	20,309	3,925	21,863	14,680	18,630
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>233,255</b>	<b>228,765</b>	<b>214,374</b>	<b>195,695</b>	<b>221,283</b>

<i>Profit and loss account, SEK million</i>	2000	1999	1998	1997	1996
Interest income	9,572	8,347	8,781	9,991	13,335
Interest expense	-548	-393	-448	-639	-5,076
Net result of financial operations	12,009	-3,352	14,024	5,806	10,792
Fees and commissions income	12	53	121	110	108
Fees and commissions expense	-7	-7	-11	-11	-14
Income from equity shares	38	36	33	26	22
Other income	21	17	33	35	17
<b>Total income</b>	<b>21,097</b>	<b>4,701</b>	<b>22,533</b>	<b>15,318</b>	<b>19,184</b>
Staff costs	-253	-271	-302	-270	-273
Administrative expenses	-160	-173	-168	-131	-118
Depreciation of fixed assets	-62	-69	-75	-68	-61
Banknote and coin expenses	-209	-138	-117	-164	-89
Other expenses	-104	-125	-8	-5	-13
<b>Total expenses</b>	<b>-788</b>	<b>-776</b>	<b>-670</b>	<b>-638</b>	<b>-554</b>
<b>Result for the year</b>	<b>20,309</b>	<b>3,925</b>	<b>21,863</b>	<b>14,680</b>	<b>18,630</b>

# Subsidiaries

## AB Tumba Bruk

### Profit and loss account, SEK million (parent company)

SEK million	2000	1999
Operating income	486	436
Operating expense	-442	-440
Operating profit/loss	44	-4
Financial items	0	1
Result after financial items	44	-3
Appropriations	19	11
Taxes	-10	-
<b>Result for the year</b>	<b>53</b>	<b>8</b>

An increase in turnover, together with the effects of rationalisations implemented have led to an improvement in the result after net financial items of SEK 47 million, compared with the previous year.

### Balance sheet, SEK million (parent company)

SEK million	31-12-2000	31-12-1999
Fixed assets	265	187
Current assets	180	195
<b>Total assets</b>	<b>445</b>	<b>382</b>
Capital	244	200
Untaxed reserves	78	96
Allocations	0	15
Long-term liabilities	0	0
Current receivables	123	71
<b>Total capital and liabilities</b>	<b>445</b>	<b>382</b>

### The Board of Directors

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 Director

Bergstedt, Lennart

### AB Tumba Bruk

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 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)

SEK million	2000	1999*
Operating income	153	73
Operating expense	-238	-96
Operating profit/loss	-85	-23
Financial items	4	2
Result after financial items	-81	-21
Taxes	-	-3
Minority interests	0	-
<b>Result for the year</b>	<b>-81</b>	<b>-24</b>

\*Refers to seven months.

During the financial year, the result has been charged with SEK 36 million for close-down expenses and restructuring costs arising from the infrastructure taken over from the Riksbank.

### Balance sheet, SEK million (group)

SEK million	31-12-2000	31-12-1999
Fixed assets	238	323
Current assets	138	103
<b>Total assets</b>	<b>376</b>	<b>426</b>
Capital	314	396
Minority interests	0	-
Allocations	32	2
Current liabilities	30	28
<b>Total capital and liabilities</b>	<b>376</b>	<b>426</b>

### The Board of Directors

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

### Managing Director

Malm, Gunnar

### Pengar i Sverige AB

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 website: www.pengarisverige.se

*Stockholm, 8 February 2001*

**Urban Bäckström**  
*Governor of the Riksbank*

**Lars Heikensten**  
*First Deputy Governor*

**Eva Srejber**  
*Second Deputy Governor*

**Villy Bergström**  
*Deputy Governor*

**Lars Nyberg**  
*Deputy Governor*



## Proposal to the Riksdag for the allocation of net revenue for 2000

The General Council of the Riksbank resolved on 14 February 2001 to submit the following proposal for the allocation of the Riksbank's net revenue.

The net revenue before appropriations amounts to SEK 20,309 million. The General Council proposes that the net revenue and a one-off dividend of SEK 20,000 million be allocated as follows:

SEK million	
Transfer to the Treasury in accordance with the allocation of profits principle	8,200
To the Contingency Fund	7,901
Transfer from the Balancing Account	-15,792
Transfer to the Treasury of a one-off payment of	20,000
Summa	20,309

The proposal in accordance with the allocation of profits principle of SEK 8,200 million has been calculated on the basis of guidelines established by the General Council in 1988. This principle entails 80 per cent of a five-year average of the Riks-

bank's net revenue excluding exchange rate effects being distributed annually. The proposed one-off payment of SEK 20,000 million is based on the General Council's assessment of how large a capital the Riksbank should hold. The Riksbank needs to hold capital to be able to counter fluctuations in its net revenue as a result of changes in interest rates, changes in the value of gold and changes in the exchange rate when managing the bank's assets and to be able to provide emergency liquidity assistance. After taking into account these aspects and making comparisons with the situation of other central banks, the General Council finds it possible to make a one-off payment of SEK 20 billion. This can mainly be done through settling the domestic securities portfolio and reducing capital through an extra dividend payment to the Treasury. Following this, the Riksbank's capital, including the Balancing Account, would amount to approximately SEK 100 billion. However, this one-off payment assumes that the regulation on allocation of net revenue is not altered.

# 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 Office of 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 2000 (report on 2000/01:RB1). The General Council has made a recommendation on the allocation of the Riksbank's net revenue.

## The examination carried out

As in previous years, we have been assisted by KPMG in the examination of the Riksbank's accounts and administration for 2000. 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 2000 be adopted.

When dealing with this matter, we have also examined a more detailed report of the examination of the Riksbank's accounts for 2000. This report, which we have submitted to the Riksdag's Committee on Finance, 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 2000 has not otherwise given us any cause for any 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 2000
2. that the Executive Board of the Riksbank be granted discharge from liability for administration of the Riksbank during 2000 and that
3. the Riksdag adopt the Riksbank's balance sheet and profit and loss account for 2000.

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 Margaretha Stålfors (person reporting) were also in attendance.

Stockholm, 8 March 2001

On behalf of the Office of the Parliamentary Auditors

*Ingemar Josefsson*

*Margaretha Stålfors*

**To the Office of the Parliamentary Auditors***Examination report for Sveriges Riksbank 2000*

The Office of the Parliamentary Auditors has appointed KPMG as expert in the field of external audit to assist in the examination of Sveriges Riksbank's accounts and administration for 2000.

We have examined the Riksbank's Directors' Report and the accounts for 2000. 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 9 February 2001 on the examination made of the accounts for 2000 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, 15 February 2001

KPMG

*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 Basle is a co-ordinating body often termed "the central banks' bank". Members include most of the European countries, the USA, Canada, Japan, Australia and South Africa. At the moment, the Governor of the Riksbank, Urban Bäckström, is President of 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 in EMU.
- EMU** The Economic and Monetary Union. The third and final stage of EMU began on 1 January 1999, when the exchange rates between the currencies in the twelve participating countries were fixed and some of the responsibility for monetary policy was transferred to the ECB.
- ESCB** The European System of Central Banks. The ESCB consists of the 15 national central banks of the EU Member States.
- Exchange rate policy** A central bank's actions to influence its own currency's exchange rate.
- Foreign currency reserve** A reserve of foreign currency used when purchasing and selling Swedish kronor. Listed on the asset side of the Riksbank's balance sheet.
- 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.
- Liquidity** How quickly and easily a financial asset can be converted into cash or used to pay a debt.
- Long-term interest rate** Interest on loans with a longer term than one year.
- Minimum lending rate** A reference interest rate that reflects the general interest rate situation and is invoked, for instance, in the Interest Act's stipulations on penalty interest. As of 1 July 2000, it is the Swedish National Debt Office that determines and publishes the minimum lending rate, and not the Riksbank.
- Monetary policy** The Riksbank's actions to influence the interest rate level and, indirectly, price levels.
- Money market** A market consisting of banks and other finance institutes that facilitate short-term borrowing and lending – for a period of one day up to one year. (The capital market is aimed at medium and long-term credit.)
- 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  $\pm$ 1 percentage point.
- Repo** A transaction where the Riksbank lends money for a certain number of days, with securities as collateral and with a repurchase agreement. A reversed repo means that the Riksbank borrows money from the banks on the corresponding terms.
- Repo rate** The interest rate the banks have to pay (or receive) when borrowing (or depositing) money from the Riksbank for a week.
- 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.
- 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.
- Short-term interest rate** Interest on loans with a shorter term than one year.
- TARGET** The joint payment system within the EU, to which the Member States' national payment systems are connected.

## Publications

- The Riksbank issues a number of publications every year. The most important are:
- The **Inflation Report** issued 4 times a year  
This report comprises a basis for monetary policy decisions. It is also intended to make the Riksbank's analyses available to the general public to stimulate interest in and facilitate understanding of monetary policy.
- The **Financial Stability Report** 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.
- The **Economic Review** issued 4 times a year  
The Riksbank's quarterly journal. It contains articles on subjects in the Riksbank's field of operations.
- Statistical Yearbook** once a year  
Statistics on the Riksbank, financial markets, payment system, balance of payments and the foreign exchange market.
- All of the Riksbank's publications are presented on its website ([www.riksbank.se](http://www.riksbank.se)). They can also be ordered through the website.

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**The Riksbank meets the mass media.** The Riksbank's adjustment of interest rate and assessments of the economy often attract considerable attention in the media. The bank holds press conferences to present its decisions regarding the interest rate, its inflation forecasts and its assessments of financial stability.

**The Riksbank informs young people of its work.** Representatives of the Riksbank travel to upper secondary schools, universities and colleges around Sweden every year to provide information on the Riksbank's work. These talks are popular and provide a general picture of the formulation of monetary policy and of the bank's activities.





