



Sveriges Riksbank

ANNUAL REPORT 1999





The role of the Riksbank

The Riksbank's activities shall contribute to economic stability and good prerequisites for sustainable growth in Sweden.

Safeguard price stability

According to the Riksbank Act, the Riksbank has an independent role to be responsible for Sweden's monetary policy. The objective of monetary policy is *price stability*. In practice, this means that the Riksbank endeavours to limit inflation, i.e. an annual rate of price increases of 2 per cent with a tolerance interval of ± 1 percentage point. Experiences from the periods when the Swedish economy developed well show that low inflation creates good conditions for growth and employment.

Promote a safe and efficient payment system

According to the act, the Riksbank shall also *promote a safe and efficient payment system*. In order for the payment system to function, banks and other payment intermediaries must function. The Riksbank therefore continually analyses the development of the banks' position and earnings and makes an assessment of and gives its view on the stability of the financial sector as a whole. The Riksbank is responsible for handling large payments in Sweden. The Riksbank's electronic RIX system, where most large banks and payment institutes have accounts, is the hub of the Swedish payment system.

Supply of banknotes and coins

The Riksbank is *responsible for the supply of banknotes and coins in Sweden*. There must be a sufficient quantity of banknotes and coins to meet the country's needs. The public must also have confidence in cash as a means of payment. The Riksbank stands as the guarantor for the safe and efficient supply of cash in Sweden.

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A modern central bank

The world's oldest central bank

The Riksbank is the world's oldest central bank. It was founded in 1668 and was then, as today, subordinate to the Swedish Parliament. Its activities are regulated by the Sveriges Riksbank Act (1988:1385). The Riksbank is managed by an executive board consisting of six full-time members. The executive board makes independent decisions on monetary policy.

As Sweden's central bank, the Riksbank, besides being responsible for monetary policy, has a monopoly right to issue banknotes and coins and manages Sweden's gold and foreign exchange reserves. The sole right to print banknotes was introduced in 1904.

The Riksbank influences inflation with the aid of the repo rate.

Somewhat simplified this works as follows.

The repo rate is the short-term interest rate for loans and deposits by private banks in the Riksbank. The repo rate is the Riksbank's most important control instrument. By changing the repo rate, the Riksbank can influence other Swedish interest rates, for example, the rates banks charge for household loans and investments. This means that the Riksbank can indirectly affect activity in the economy through the repo rate, for instance business investments and household consumption and, in the long term, inflation. If the Riksbank believes that inflationary pressure will rise within a couple of years, the repo rate is increased to counteract such a development.

The long-term interest rates, such as housing loans, are primarily affected by the expected inflation. Those who lend money for a period of for example five years, require compensation for the expected inflation during the period.

Monetary policy decisions require a good foundation

In order to assess how inflationary pressure will be in future, the Riksbank works continually with investigations and analyses of various kinds. These provide a basis for monetary policy decisions. A number of different variables or indicators are studied, such as capacity utilisation in industry, consumer price index, unemployment, import and export prices, wages, money supply, changes in the exchange rate, and long-term interest rates.

Great demands on a long-term approach, analysis and competence

The Swedish economy has experienced both highs and lows in the post-war years. The economy has been gradually deregulated, we have moved from a fixed to a floating exchange rate, the financial system has been changed. All this has affected the Riksbank's role.

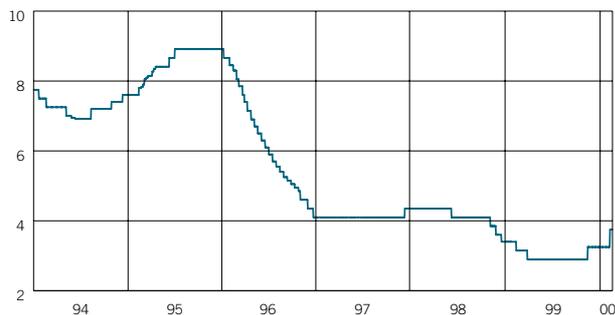
The financial environment is more global, the financial techniques used are more advanced, and the market is changing ever more rapidly. The demands on the Riksbank have therefore increased considerably as regards the ability to be forward looking and make qualified analyses. In order for the bank to carry out its responsibilities, it is essential that information and statistics, analysis and research activity are all of the highest quality.

Today, the Riksbank serves as a modern central bank with a highly competent organisation as regards understanding how inflation arises and how the bank can affect this through its interest rate control system.

1999 in brief

- The new Riksbank legislation comes into force on 1 January 1999.
- The new General Council with eleven regular members takes office on 1 January 1999.
- The new Executive Board, consisting of six full-time members with the responsibility of managing the bank and making decisions on monetary policy, takes office on 1 January 1999.
- The Executive Board confirms the two per cent inflation target and agrees that clarifications on the conduct of monetary policy are to be made.
- The Executive Board decides that eight to ten special meetings with discussions on monetary policy will be held each year.
- On 12 February 1999, the Riksbank decides to lower the repo rate from 3.40 to 3.15 per cent taking effect from 17 February.
- The premium bond activities are wound up and the Riksbank's cash desks closed to the general public.
- On 25 March 1999, the Riksbank decides to reduce the repo rate from 3.15 to 2.90 per cent taking effect from 31 March.
- The Riksbank introduces the monetary policy game Stargold on its website for students.
- The wholly-owned subsidiary PSAB Pengar i Sverige AB, responsible for practical cash handling, starts operations on 1 June 1999.
- The Riksbank launches a new website on the Internet.
- On 11 November 1999, the Riksbank decides to increase the repo rate from 2.90 per cent to 3.25 per cent taking effect from 17 November.
- The General Council of the Riksbank decides to reelect Deputy Governor Lars Nyberg as a member of the Executive Board for six years.
- Four inflation reports and two financial stability reports are published during the year.

Repo rate. Per cent



Source: Ecowin.

The repo rate was raised towards the end of 1999 after having been reduced by a total of 6 percentage points in the course of approximately three years.

Key figures

	1999	1998	1997
Year-end figures			
Result for the year (SEK billion)	3.9	21.9	14.7
Transfer to the treasury (SEK billion)	9.8*	7.6	9.3
Gold and foreign reserve (SEK billion)	153	136	101
Number of employees	466**	754	670
Repo rate (per cent)			
Repo rate (per cent)	3.25	3.40	4.35
Money rate *** (three-month, per cent)	3.51	3.36	4.34
Bond rate (ten-year, per cent)	5.73	4.17	5.97
Annual figures			
GDP (percentage change)	3.8	2.9	1.5
Unemployment (per cent)	5.6	6.5	8.0
CPI (percentage change)	0.3	0.4	0.9
UNDIX, **** (percentage change)	1.4	0.9	1.4

* As proposed by the General Council.

** Reduction due to the formation of a subsidiary.

*** Relates to three-month treasury bills.

**** Definition, see page 9.

An eventful year for the bank and for the Swedish economy

During 1999 the turbulence in the financial markets subsided and pessimism about economic developments was replaced by optimism. Monetary policy contributed to this development. The Swedish economy grew and employment increased. Work at the Riksbank was increasingly marked by the changes that the new Riksbank Act entailed. In 1999, work continued on giving the role of the Riksbank a sharper focus. As part of this work, cash handling was transferred to a separate company, PSAB, from 1 June.

New legislation

On 1 January 1999, the new legislation for the Riksbank came into force, giving a legal form to the independence that monetary policy already had in practice. The responsibility for managing the bank, making decisions on monetary policy, and promoting an efficient payment system was shifted from the General Council to an Executive Board with six full-time members.

The challenge for the Executive Board was to find suitable forms of working in a management that makes collective decisions. An important issue concerned the monetary policy process, i.e. how our decisions were to be prepared, made and presented. Another important issue was how work should be organised in other respects.

It was important to find forms of work very quickly as the Riksbank had to continue to function at full strength from 1 January despite the changes.

At our first meeting in 1999, we decided that a more detailed discussion on monetary policy would take place mainly at special board meetings eight to ten times a year. We agreed that the experiences obtained from the years with inflation targets required some clarifications about the conduct of monetary policy.

Policy is normally focused on achieving the target of 2 per cent inflation with a tolerance interval of ± 1 percentage point, defined as the change in the consumer price

index, CPI. In clarifying this, we noted that there may be reasons for deviating from the target from time to time. One such reason is if inflation is affected by temporary factors which will not have a more permanent impact. Another reason is if moving inflation quickly back to the target level would involve major real economic costs. If any of these situations should arise, the Riksbank will make clear in advance the size of the deviations that we consider motivated in a one to two year horizon. This makes it easier to evaluate the policy carried out.

The new Riksbank legislation not only changed the way of working at the bank but also external communications. All members of the Executive Board are responsible for monetary policy being conducted in such a way that it safeguards the value of money. This individual responsibility and the formal independence require that the outside world can evaluate our arguments and decisions. The conclusion that the Executive Board drew from this was that our monetary policy discussions and the standpoints that each of us take on the occasions when we make decisions should be minuted in such a way as to make possible individual valuation. We therefore decided at our first meeting in January to publish special minutes from the monetary policy meetings.

The individual responsibility also makes it necessary for the members of the Executive Board to be able to present our individual views on monetary policy in speeches, interviews and articles.

Our ability to speak freely is limited, however, in one respect. During the period between a monetary policy meeting until the minutes are published, we are not permitted to comment on what we have discussed at the meeting nor express any other view on monetary policy differing from the majority. For this reason, we have endeavoured to make the period between the meeting and publication of the minutes as short as possible.

The new forms of communication have changed the

way of interpreting monetary policy. A balance is now to be struck between the views of six people on monetary policy. Previously, statements from the Riksbank in various forms were a common indication of future policy. After the change in the law, the Executive Board will normally state its common view in the inflation report, in the press releases in conjunction with monetary policy decisions, and through the Governor of the Riksbank's speeches to the Parliamentary Standing Committee on Finance twice a year. Our experiences from the first year of how the Riksbank is perceived is that it has worked relatively well even though some personification of monetary policy can be noted. We hope that the Riksbank's external communication will contribute to a wider understanding of the considerations that the Executive Board face when we make monetary policy decisions.

Economic developments

During the year, optimism about economic developments successively increased. In the spring, the Riksbank lowered the interest rate to 2.90 per cent, when inflation was expected to be less than target. Gradually, the incoming statistics showed an increasingly bright picture. Growth increased, employment rose and the inflationary pressure remained weak although slightly rising. The forecast for future inflationary pressure was revised upwards and towards the end of the year, the Riksbank increased the interest rate to 3.25 per cent to promote a lasting and favourable development of the Swedish economy with high growth and low inflation.

A more focused role

For a number of years, the Riksbank has worked for a sharper focus of its role and the main tasks that a central bank has – maintaining price stability and promoting a



Standing: Kerstin Hessius, Lars Nyberg, Eva Srejber and Villy Bergström. Seated: Lars Heikensten and Urban Bäckström.

safe and efficient payment system. The reorganisation of the Cashiers' Department last year was part of this process. By moving distribution of banknotes and coins to a wholly-owned subsidiary, PSAB Pengar i Sverige AB, from 1 June 1999, the Riksbank not only wanted to enhance the focus on its supervisory role but also to stimulate more efficient cash handling.

Urban Bäckström Lars Heikensten Eva Srejber

Villy Bergström Kerstin Hessius Lars Nyberg

Said during the year

Important to prepare for EMU

“The best way for Sweden to prepare for the EMU is to ensure sound government finances, good price stability and structural reforms. In fact, this is also a good way of preparing for life outside the EMU, but participation in the monetary union can increase the return on such a policy. The greatest possible freedom of action ahead of a political decision on the EMU issue also requires that we keep up with practical preparations for the introduction of the euro.” *Second Deputy Governor of the Riksbank Eva Srejber at Finansforum on 21 April.*

Stable inflation rate

“The Riksbank weighs in the situation on the labour market and the real activity in its assessments. In the short run, there is a trade-off between stability of the inflation rate and stability in the real economy. An unremitting stabilisation of the rate of inflation very narrowly around two per cent would at times lead to real economic instability. In the long run, however, there is no trade-off between inflation and employment. A low, stable inflation provides the prerequisites for fast growth and high employment, as indicated by experiences from earlier periods, such as the first two decades after the war. We are now seeing a development that seems to confirm this hypothesis.” *Deputy Governor of the Riksbank Villy Bergström at Norrbäcke Sparbank on 21 May.*

Tax cuts needed

“Tax cuts in Sweden are probably needed that promote long-term benefits on both the supply and the demand side of the economy; a long-term tax reform with those ambitions would be desirable. In the present situation,

however, with growth seemingly reaching around 3.5 per cent this year and 3 per cent in 2000, tax cuts and labour market reforms that primarily favour the supply side would increase the opportunities for good growth without contributing to increased inflationary pressure. That would lessen the risk of overheating and facilitate the interaction of fiscal and monetary policies.” *Deputy Governor of the Riksbank Kerstin Hessius at Västmanlands Kommunförbund on 27 August.*

No threat to price stability

“I personally do not see in the present situation any direct, immediate threat to price stability in the Swedish economy. However, I believe that a continued strong development of demand – all other things being equal – requires that we, the Riksbank’s Executive Board, consider how we can best assure continued stable growth in the Swedish economy. My own view is that there are still no reasons for reducing the expansionary effect on the Swedish economy that monetary policy at present has. Some time in a cyclical upturn, a change in monetary policy will be required, but I consider that it is still an open question when that time will be.” *Governor of the Riksbank Urban Bäckström at Föreningsparbanken in Ulricehamn on 1 September.*

Less expansionary monetary policy

“After the series of reductions, the repo rate is currently 2.90 per cent. Over a complete business cycle, such a level would probably be too low, even in an economy where inflation expectations have settled down around the targeted rate of 2 per cent. So sooner or later the level of the repo rate will have to be normalised in order to counter an acceleration of inflation in an upward cyclical phase. This is something that the Riksbank is discussing, as was

evident from the published minutes of the Executive Board meeting on 12 August. In the present circumstances what we have to do is decide when – not whether – the time has come to initiate the shift towards a less expansionary monetary stance.” *Governor of the Riksbank Urban Bäckström at Stora rånedagen on 4 October.*

It may be necessary to increase the repo rate

“The present Inflation Report concludes that higher inflation compared with the main scenario is more probable than lower inflation. Remember, moreover, that to be most effective, monetary policy has to focus on the situation one to two years ahead. This suggests that the Riksbank is moving towards a situation in which the repo rate will be raised. Yesterday, however, the Executive Board decided in favour of an unchanged repo rate. But sooner or later, if developments continue along the lines in the present assessment, a repo rate increase will be called for.” *Governor of the Riksbank Urban Bäckström at the Standing Committee on Finance, 6 October.*

Inflation may rise

“Along with most other observers, we now count on an acceleration of inflation in the coming years. Assessments of the rate at which inflation will move up may vary, of course. But when the underlying rate of inflation is 1.8 per cent, it is obvious that a repo rate increase ought not to wait particularly long, given that nothing unforeseen alters the economic assessment. Timely action creates the best conditions for a stable development with a longer upward phase.” *First Deputy Governor of the Riksbank Lars Heikensten at the National Institute of Working Life on 26 October.*

Increased repo rate

“Just over a week ago the Riksbank raised the repo rate from 2.90 to 3.25 per cent. The decision was based on the assessment of inflation prospects we had presented in the October Inflation Report and our analysis of economic statistics that had subsequently become available. By raising the repo rate now, we aim to contribute to the continuation of a favourable economic trend, with stable prices and sustainable growth. We made the increase somewhat larger than was expected so as to be in a position to leave the repo rate unchanged for the rest of this year, given

that the Swedish economy follows the path predicted by the Riksbank.” *Governor of the Riksbank Urban Bäckström at the Shareholders Association in Gothenburg on 22 November.*

“New economy”?

“Are there traces of a new economy in Sweden? In the opinion of the Executive Board of the Riksbank, as stated in the Inflation Report (1999:3), the trade-off between inflation and growth has improved to some extent, even if there is considerable uncertainty about by how much. In conclusion, the Swedish economy appears to have undergone only some of the structural changes that the American economy has implemented. It remains to be seen whether the ‘new economy’ can have any further impact in Sweden.” *Deputy Governor of the Riksbank Kerstin Hessius at the Swedish Economic Association on 1 December.*

Adjusted monetary policy

“If the asset markets are exposed to strong shocks in the form of large, sudden price falls and this threatens the financial stability, the Riksbank’s monetary policy could be adjusted to try to restore stability. Monetary policy relaxation during a period with drastically falling asset prices means that it is made more easy for the market participants to pay the debts that have arisen, which reduces the vulnerability of the economy to further shocks. However, this shall not be interpreted as it being the Riksbank that bears responsibility for sorting out all the crises when they have actually occurred. The Riksbank can, like the Federal Reserve in autumn 1998, contribute to limiting the spread of a crisis in the financial system. The major share of responsibility and costs should always be borne by the market participants who have contributed to a price bubble being created.” *Deputy Governor of the Riksbank Lars Nyberg at the Swedish National Association of Wooden House Manufacturers on 15 December.*

High growth and low inflation

1999 was a year with good growth, accelerating employment and low inflation. Growth is estimated to have been approximately 3.5 per cent at the same time as inflation was low

Since summer 1993, when the economy bottomed out after the strong downturn, economic growth has averaged around 3 per cent and the inflation rate according to CPI has been 1.3 per cent. This can be compared with the latter half of the 1980s when the corresponding growth figure was 2.5 per cent and the rate of inflation 7.4 per cent per year.

MONETARY POLICY

The objective of monetary policy is laid down in the Riksbank Act as being to maintain price stability. At the beginning of 1999 the new Executive Board of the Riksbank specified this objective as being, under normal circumstances, to hold the rate of CPI inflation at 2 per cent \pm 1 percentage point, which has been the target since 1993. However, the Board now clarified the specification, stating that grounds may exist for departing from this rule, for instance if the rate of inflation is affected by transient factors. That was the case during 1999 and monetary policy was accordingly based in practice on an assessment of the underlying rate of inflation as measured by UNDI X.

Forward-looking monetary policy

As monetary policy mainly affects inflation with a time lag of one to two years, the Riksbank has to base its policy on an assessment of the path of inflation in that time horizon. Monetary policy is normally formulated in the light of a simple rule of thumb: if the Riksbank's forecast of inflation one to two years ahead indicates that the rate will deviate from the target, the repo rate is adjusted.

This rule is not mechanical, however. Forecasting inflation entails considerable uncertainty. The Riksbank

therefore also assesses the uncertainties. Besides the main scenario (inflation's most probable path), a number of risk scenarios are weighted into the final assessment on which monetary policy is founded. Moreover, there may be grounds for weighing in more "technical considerations" on the margin which are related to factors such as effects in the financial markets of an alteration of the repo rate.

Under specific circumstances, moreover, there may be grounds for interpreting the rule more flexibly. In a clarification of the direction of monetary policy, in February 1999 the Executive Board identified two reasons for departing from the inflation target. One reason is if consumer prices one to two years ahead are being influenced by factors that are not considered to have a permanent effect on inflation. Changes in household interest expenditure or in indirect taxes and subsidies may constitute such factors, which influence the development of inflation for a time but do not have lasting effects. Allowance for transient factors of this kind has been made before when formulating monetary policy. During 1999, such factors clearly affected the assessments of how inflation would develop in the coming one to two years. The Riksbank disregarded those factors and therefore based monetary policy during the year on assessments of UNDI X inflation.

Another reason for departing from the rule might be if a quick return to the targeted rate would be costly for the real economy. There may then be grounds for disregarding the time horizon and aiming to bring inflation back to the target more gradually. The question of departing from the rule for this reason did not arise during 1999.

Inflation tended to move up late in the year

During 1999 the 12-month rate of CPI inflation averaged 0.3 per cent and was accordingly below the price stability target.¹ From -0.4 per cent in January 1999, the rate moved up to 1.2 per cent in December. In other words,

during the year, CPI inflation tended to accelerate.

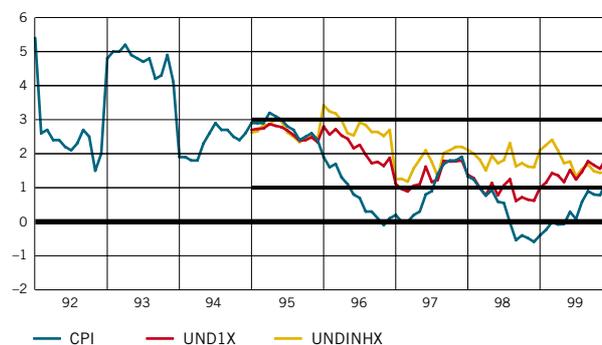
Major factors behind the low rate of CPI inflation in 1999 were declining house mortgage interest costs and reductions in indirect taxes and subsidies. These were clearly identifiable price movements that monetary policy – in accordance with the clarification in February – neither can nor should counter provided they do not alter inflation expectations. These transitory factors held back the development of consumer prices throughout the year, with the strongest effect in the first half. The rate of inflation excluding these factors (underlying inflation as measured by UND1X) averaged 1.5 per cent in 1999. Inflation measured in this way was accordingly within the tolerated interval.

The 12-month rate of UND1X inflation at the beginning of 1999 was 1.0 per cent. Effects of price increases for services were countered at that time by slow price increases for goods. During the year, however, the price trend for imported goods swung by degrees from a falling tendency to a moderate upward movement. This contributed to the acceleration of UND1X inflation to 1.9 per cent in December.

This acceleration was mainly a consequence of a sharp price rise for oil but it also came from other categories of goods. The international barrel price of crude oil moved up from under USD 11 at the beginning of the year to over USD 25 at the end. There is some time lag before higher oil prices affect consumer prices in Sweden; approximately half of the total effect occurs within a couple of months, mainly in the form of higher prices for petrol and heating oil. Prices for these two items rose rapidly during 1999 and contributed 0.6 percentage points to the upward shift in the 12-month inflation rate in UND1X. The remaining effect on consumer prices – via higher prices for intermediate goods, transports, etc. – is judged to occur after one to two years; this presupposes, however, that the higher level of oil prices proves to be sustainable

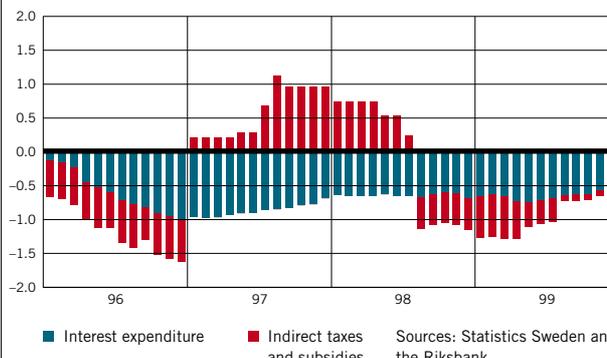
1. For an evaluation of monetary policy in earlier years, see the written reports that the Riksbank submits to the Standing Committee on Finance in the Riksdag twice a year, as well as the Riksbank's quarterly *Inflation Report*.

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



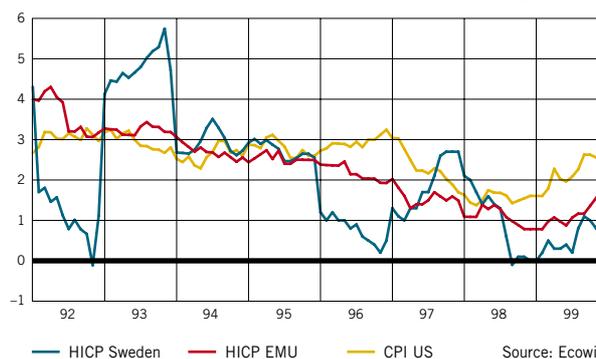
Note: The horizontal lines from 1995 onwards represent the Riksbank's tolerance interval for changes in CPI.
Source: Statistics Sweden.

Diagram 2. CPI effects of changes in house mortgage interest expenditure, indirect taxes and subsidies. Percentage points



Sources: Statistics Sweden and the Riksbank.

Diagram 3. International inflation. Percentage 12-month change



Source: Ecwin.

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 (UNDINH): CPI excluding import price

movements, changes in interest expenditure and direct effects of changes in indirect taxes and subsidies.

Harmonised index of consumer prices (HICP): CPI excluding the following items: house mortgage interest expenditure; tenant-owned housing charges; certain components of health and medical care; property tax, depreciation and some repairs for owner-occupied housing; pools and totaliser betting, insurance on owner occupied housing, and site leasehold charges for owner occupied housing.

in the longer run, which is not considered likely.

It is not obvious how oil price movements are to be dealt with from the point of view of monetary policy. A change in the price of oil can be viewed as a disruption of supply in certain cases with mainly temporary effects on inflation and less significance should be attached to it in this case when formulating monetary policy. However, the increase in the oil price during 1999 was also affected by the international cyclical upturn. It cannot either be excluded that the oil price trend has an effect on inflation expectations in the economy and price formation in general.

The rate of domestic inflation (UNDINHX), which was not affected by these factors, continued to fluctuate around 2 per cent during 1999, as it had in 1998. As this index excludes import prices, it was unaffected by the oil price rise, for example, although at the same time it did not register a considerable part of the downward price tendency associated with the growing international trade in goods. In connection with the deregulation of markets for electricity and telecommunications, however, the rate of UNDIHX inflation was subdued during the latter half of the year; in December, the combined contribution from these two items was around -0.3 percentage points.

Inflation in Sweden in 1999 was lower than in most EU countries. In terms of the internationally harmonised index of consumer prices (HICP), the rate in Sweden was 0.6 per cent as against a euro area average of 1.1 per cent.

Inflation expectations moved up successively during 1999 as economic activity strengthened as the cycle firmed and prices rose primarily in the wake of the increase in the oil price. Households' expectations of inflation one year ahead rose from 0.8 per cent in January to 1.6 per cent in December. Expectations of the average rate of inflation in the coming two and five years, respectively, were around 1.5 per cent in March and then – as the current rate of inflation rose – climbed towards the 2 per cent target, where they appeared to stabilise at the end of the year.

Rapid changes in the international situation

At the beginning of 1999, the international economic mood was dampened in many countries. The Asian crisis which had broken out during summer 1997 continued to affect the world economy, as well as further economic problems in Russia in August 1998 and the collapse of the American hedge fund Long Term Capital Management

in September 1998. GDP growth in the OECD area was expected to remain at a modest 1.5 per cent.

Above all, considerable uncertainty remained about the situation in a number of growth markets. For instance, Latin America was affected by problems in conjunction with a currency crisis in Brazil. This resulted in a decision by the Brazilian central bank in mid-January to allow its currency to float freely and the introduction of an inflation target in June 1999.

Most OECD countries carried out an expansionary monetary policy in early 1999. In April the newly-established European Central Bank decreased its instrumental rate by 0.5 percentage points.² Interest rate reductions also took place in the United Kingdom in the spring. These interest rate reductions contributed to stabilising the international financial markets during the spring, although the situation was still unclear at that time.

However, in the US the upturn was still strong. The Federal Reserve had already reduced its instrumental rate during autumn 1998 in several steps and the record US upswing showed few signs of dampening in 1999. At the same time, however, imbalances continued to increase. The balance of trade continued to deteriorate as imports grew more quickly than exports and there was a further fall in the household saving ratio as consumption was stimulated, among other things, by reduced unemployment and high stock prices. However, towards the end of the year there were some indications of a reduced level of activity. Among other things, consumer confidence and housing investment declined.

The growth of the US economy contributed to a marked reinforcement of the international economic situation during the year. The most marked improvement was in Japan where the recovery became more robust in the course of time. Industrial production was surprisingly positive and the Bank of Japan's business tendency survey Tankan indicated brighter expectations among the business sector during the autumn. The recovery in the euro area was reinforced by rising exports and a consumer confidence that remained at a high level. Towards the end of the year, the assessment of growth in the OECD area had been revised upwards to over 2.5 per cent.

The upswing in the international business cycle contributed to rising international long interest rates. The

2. On 1 January 1999, the new European Central Bank, ECB, took over responsibility for monetary policy in the euro area. The primary objective for monetary policy is price stability, defined as an annual increase of consumer prices of under 2 per cent in the euro area as measured by HICP.

interest rate level for ten-year treasury bond loans rose during 1999 by around 1.5 percentage points both in the US and the euro area. However, this marked upswing should be viewed in the light of the Asian crisis during 1998 pulling down long interest rates to “excessively” low levels.

This trend also contains an increased risk of the upswing eventually leading to an increased inflationary pressure. A number of central banks, which had previously relaxed monetary policy in response to the Asian crisis and its consequences, therefore began to adopt a less expansionary policy, among them the US and European Central Bank. The ECB increased the instrumental rate at the beginning of November by 0.5 percentage points.

The international foreign exchange movements were dominated in 1999 by a strengthening of the yen and a weakening of the euro. The latter resulted in parity between the euro and the dollar at the beginning of December. At the end of the year, the euro had weakened by 13 per cent in relation to other currencies (trade-weighted). However, this weakening should be seen in the light of a strengthening at the end of 1998 of those currencies that converted to the euro.

Strong activity in Sweden

Strong domestic demand in Sweden during 1999 limited the effects of the international uncertainty in the first six months. As this uncertainty receded, the picture of a stable, broad economic upswing emerged.

The foreign trade statistics indicate that exports of goods rose about 5 per cent in 1999 as against only about 2 per cent for imports. The weak import trend is surprising in relation to the strength of domestic demand. The expansion of the private services sector probably helps to explain this, in that the import content of private services is generally low. Another conceivable reason for the weak import growth is decreased investment in stocks.

The development of foreign trade in volume terms tended to strengthen the balance of trade, while price movements had a contrary effect. The changes in other components of the current account were minor. For 1999 the current account is accordingly calculated to have shown a surplus of about SEK 55 billion (2.5 per cent of GDP), which is much the same as in 1998.

Household consumption went on rising strongly during

Diagram 4. Ten-year bond rates in the United Kingdom, Sweden, Germany and the United States. Daily quotations, per cent

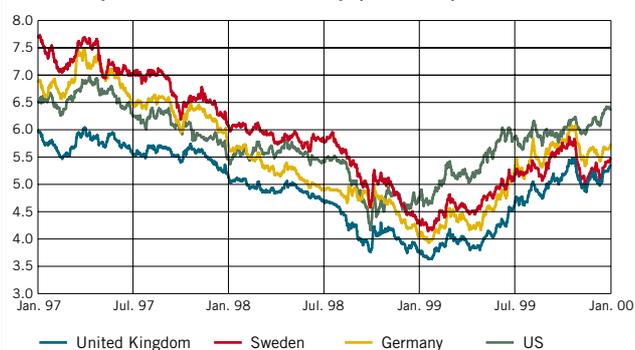
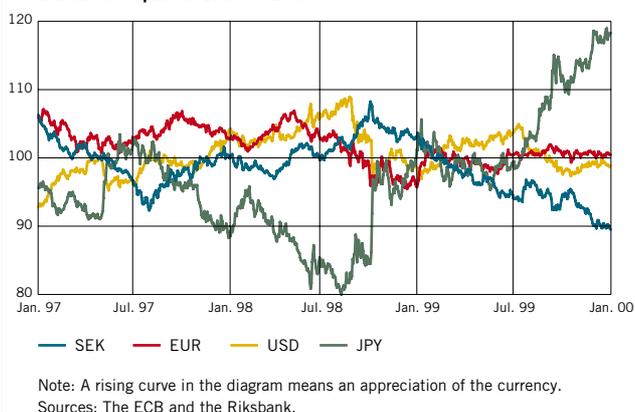


Diagram 5. Effective nominal trade-weighted exchange rates. Index: First quarter 1999 = 100

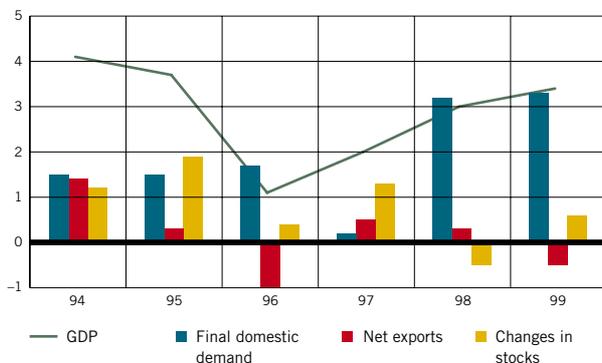


1999, particularly as regards durable goods. A number of favourable factors contributed to this: above all, increased employment, strong real wage growth and low interest rates. This was accompanied by an appreciable growth of household wealth in connection with rising prices for shares and houses. Households were also confident about their own economic situation as well as Sweden's.

The increase in households' total consumption expenditure had been relatively strong since the mid-1990s compared with the development of households' real income. This was reflected in a reduction of saving in relation to disposable income and in an increase in household indebtedness. Despite this increase, households' gross indebtedness, in relation to disposable income, was considerably less at the end of 1999 than at the end of the 1980s.

Investment growth continued in 1999 and manufacturing activity was favourable, even though conflicting indicators meant that the strength of the upswing was rather uncertain at times. Manufacturing investment

Diagram 6. GDP growth and contributions from final domestic demand, net exports and stocks. Per cent and percentage points respectively



Note: Data for 1999 refers to the Riksbank's forecast in the Inflation Report 4/1999.
Sources: The ECB and the Riksbank.

went on rising, albeit at a somewhat more subdued rate than in 1998. Residential investment picked up rapidly from a very low initial level. The total number of housing starts rose by about 40 per cent from 1998 but there were marked geographical differences; most of the increase came from residential construction in the metropolitan regions. The contribution of stock changes to GDP growth is considered to have been negative during 1999, although it is difficult to assess the impact of the millennium changeover on stocks.

The strong growth of employment that had begun in 1998 continued during 1999. It was concentrated to the metropolitan regions and to private services. Open unemployment fell successively during 1999, to 5.3 per cent of the labour force at the year-end.

Recruitment problems arose in limited segments of the labour market towards the end of 1999. Bottlenecks were reported for about thirty of the municipalities. It is mainly expanding firms, particularly in engineering, that are having difficulty in recruiting skilled labour.

The rate of increase of labour productivity is estimated at 0.7 per cent during 1999 while the average for the preceding three years was 1.7 per cent. It would seem probable that productivity development was hampered in 1999 by the strong increase in employment and the fact that this primarily related to the services sector. Although it is reasonable to expect that employment, particularly in the sectors that produce private services, will continue to increase, the strong increase in employment during 1999 indicates that the recent weaker development of productivity is temporary. The long-term frameworks that apply

to monetary and fiscal policy, deregulation of various markets, increased competition and the spread of information technology should strengthen productivity development in future.

The successively better economic situation contributed to a favourable trend for the public sector financial balance in 1999, while the structural surplus decreased. The public sector surplus for 1999 is calculated to have been equivalent to 2.1 per cent of GDP. The public sector's consolidated gross debt as a percentage of GDP was reduced during 1999 from 72 to 66 per cent, which means that Sweden is one of the EU countries with the fastest improvement in public finances.

Further repo rate cuts in the spring

In the early part of 1999 the subdued international prospects for economic activity and inflation were expected to result in inflation in Sweden being somewhat lower in the coming two years than had been foreseen in the Inflation Report in December 1998. There was judged to be a considerable risk that inflation one to two years ahead would be below the target. On 11 February the Riksbank therefore decided to lower the repo rate 0.25 percentage points to 3.15 per cent, accompanied by a reduction of both the lending and the deposit rates by 0.5 percentage points to 2.75 and 4.25 per cent respectively.

In the March Inflation Report it was noted that, as a result of the Asian crisis, the international price trend was weaker than had been expected, while economic activity in the euro area had slackened during the winter and producer prices in world markets were still falling. Although domestic demand was expected to steadily pick up, the main scenario indicated that underlying inflation (UND1X) would be somewhat below the target. Moreover, the inflation assessment was judged to contain some downside risk in the form of weaker international activity than foreseen in the main scenario. Against this background, the Riksbank decided on 24 March to reduce the repo rate by another 0.25 percentage points to 2.9 per cent. During the spring, the forecasts for both Swedish and international growth were revised upwards, together with the underlying rate of inflation in Sweden. Besides the altered economic prospects, other factors behind this revision included rising oil prices. In the main scenario in the June Inflation Report it was judged that the underlying inflation rate (UND1X) would be 1.9 per cent one year ahead

and 2.0 per cent after two years. Moreover, the international risk spectrum was considered to be symmetric – the risk of a more prolonged international slowdown had decreased.

During the summer and early autumn the international economic prospects continued to improve, accompanied by a positive shift in the assessment of domestic demand. In the Inflation Report at the beginning of October it was foreseen, moreover, that fiscal policy during 2000 and 2001 would be more expansionary than expected earlier. With the prospect of rising resource utilisation, it was considered, for example, that wage increases during 2000 and 2001 would be somewhat higher than assumed in the June Report. The overall assessment in the October Report was that underlying inflation one to two years ahead would be broadly the same as foreseen in the June Report. But the inflation prospects were judged to contain some upside risk in connection with the future wage trend and the strong development of economic activity. The forecast for UNDIX inflation in the main scenario was 1.8 per cent one year ahead and 2.1 per cent after two years. The Riksbank therefore left the repo rate unchanged for the time being.

Repo rate increase in November

New information in late October and in November strengthened the impression of growing inflationary pressure. A positive shift in international economic prospects was accompanied by expectations that higher prices for commodities and intermediate goods would lead to somewhat increased external price pressure. Together with the fact that the Swedish economy had moved further into the upward phase, this led the Riksbank to raise the repo rate on 11 November by 0.35 percentage points to 3.25 per cent. This increase was expected to create conditions for holding the repo rate unchanged for the rest of the year.

The December Inflation Report presented an unchanged picture of a broad and stable upswing in the Swedish economy. Although the November repo rate increase was expected to dampen activity somewhat, the annual GDP growth rates in the period 1999–2001 were forecast to be 3.4, 3.7 and 3.3 per cent. This strong growth was expected to result in capacity restrictions in the coming years that may affect price trends. As previously, the krona was expected to appreciate in the years ahead but

somewhat more slowly than envisaged earlier.

In the main scenario, the underlying rate of inflation (UNDIX) was expected to be 1.8 per cent one year ahead and 2.2 per cent after two years. The inflation assessment was also judged to contain some upside risk, mainly because inflation may react more quickly and markedly to the strong demand growth and a stronger import price trend compared with the main scenario could not be ruled out. With this risk spectrum taken into account, it was judged that UNDIX inflation would be approximately 0.1 percentage point higher than in the main scenario. It was concluded that if the economy develops as foreseen by the Riksbank, the future direction of monetary policy might need to be less expansionary.

The Riksbank aims to act in a foreseeable manner. During 1999 the Riksbank adjusted the repo rate on three occasions. All these decisions were well in line with what the markets had expected and incorporated in prices. Thus, the analyses and assessments that were presented in the Inflation Report, in minutes and in speeches by members of the Executive Board appear to have contributed to a monetary policy that was relatively predictable.

MANAGEMENT OF THE GOLD AND FOREIGN CURRENCY RESERVE

Prerequisites

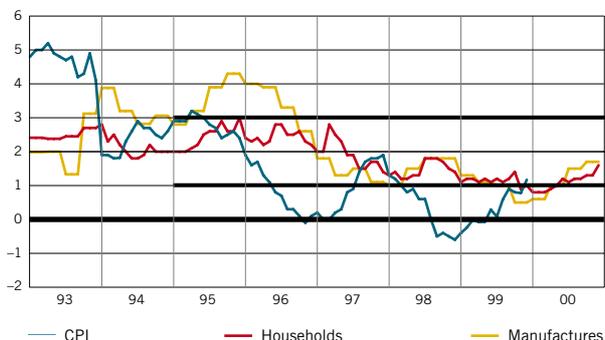
According to the Riksbank Act, the Riksbank shall hold assets in foreign currencies, foreign assets and gold. The Riksbank Act further permits these assets to be invested in treasury bonds, gold and other liquid assets. The Riksbank holds a gold and foreign currency reserve for emergencies and to be able to carry out monetary and foreign exchange policy.

The allocation and composition of the gold and foreign currency reserve

The gold reserve is a buffer intended for use in extreme situations when other assets are either not usable or not available. The gold reserve is 185.4 tonnes. The foreign currency reserve is invested according to a set allocation³ in four currencies: US dollar, euro, pound sterling and Japanese yen. The foreign exchange reserve moreover

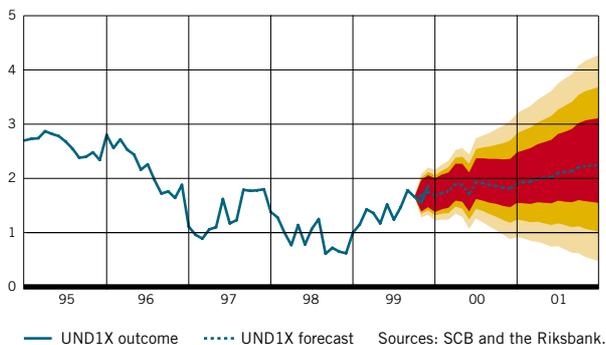
3. The distribution is at present 35 per cent EUR, 35 per cent USD, 15 per cent JPY and 15 per cent GBP, ± 3 per cent.

Diagram 7. Actual inflation (CPI) and inflation expectations of households and manufacturers. Percentage 12-month change



Note: The horizontal lines from 1995 and onwards indicate the Riksbank's tolerance interval for changes in CPI.
Sources: National Institute of Economic Research and Statistics Sweden (SCB).

Diagram 8. UND1X with uncertainty intervals, from Inflation Report 99:4. Percentage 12-month change



consists of an investment portfolio and a liquidity portfolio. The investment portfolio is a long-term bond portfolio where the intention is to generate the highest possible yield while the liquidity portfolio is intended to cover the short-term liquidity requirements of the Riksbank to meet its commitments. In addition, the Riksbank has assets in Special Drawing Rights at IMF.

The Riksbank is able to affect the result primarily by controlling the sensitivity of the foreign currency reserve to interest rate changes. The interest rate sensitivity is governed by the average maturity of the the foreign currency reserve's assets. A longer term can be expected to generate a higher average result over time, although this takes place at the cost of greater fluctuations in the short-term result. The Riksbank has a long-term perspective for management of Sweden's foreign currency reserve so that a long-term high return is considered to be of greater importance than the risk of short-term variations in the result. The Riksbank therefore maintains a relatively high sensitivity to interest rates in the foreign currency reserve.

Market movements during the year related to the result

The foreign currency reserve generated interest income of SEK 5.4 billion during the year, while the total profit was SEK 3.8 billion. Besides interest income, price movements for foreign currency, interest-bearing securities and gold affect the result even though it mainly concerns unrealised gains/losses. The exchange rate effect in the foreign currency reserve improved the result by around SEK 2 billion and the gold valuation effect improved the result by just under SEK 1 billion during 1999. However, the price effect in the securities portfolio pulled down the result by over SEK 4 billion.

Exchange rate movements

The Swedish krona strengthened during 1999 in relation to the euro but weakened during the same period in relation to the yen, the US dollar and the pound. Altogether, exchange rate movements resulted in an increase in the value of the foreign currency reserve calculated in krona, which means an improvement in the Riksbank's result.

The krona's development in relation to the currencies in the foreign currency reserve reflected above all exchange rate movements in the international foreign exchange market. The exchange rate fluctuations in the yen and the euro had the greatest effect. During 1999, the Japanese economy recovered somewhat and GDP rose again after a period with falling production. The improved confidence in the Japanese economy strengthened the Japanese currency. The capital inflow which resulted from foreign investors' interest in Japanese shares was considered by many to be an important factor underlying the strengthening of the yen. The weakening of the euro during 1999 probably depended primarily on growth in Germany in particular developing more poorly than expected. At the same time, the record-long US upswing showed few signs of dampening and the dollar continued to firm slightly.

Interest rate movements

The fall in prices in the international bond market led the market value of the investment portfolio in kronor to fall

during 1999 which led to an unrealised loss. The strong international economic situation was the cause of the upturn in the international bond rates during the second half of 1999 and at the end of the year, they were 1–2 percentage points higher than at the end of 1998. The exception was the Japanese rates, which despite some improvement in the Japanese economy remained around a half percentage point lower at the end of 1999 than the year before.

Gold price movements

The price of gold fluctuated greatly during the year. After the United Kingdom's announcement of the sale of 415 tonnes of gold on 7 May, the gold price fell during coming months by around 10 per cent.⁴ On 27 September, the Eurosystem's central banks together with the central banks of Switzerland, the United Kingdom and Sweden presented an agreement on limiting the future sale of gold. This announcement initially led to a strong price increase. However, the price of gold fell back during the final months of the year to a level close to that at the beginning of the year.

Market risk in foreign currency and gold reserve management

The Riksbank is able to affect the result of its management by controlling the interest rate sensitivity of the foreign currency reserve. The average term can as previously mentioned be regarded as a measure of the sensitivity of the foreign currency reserve to interest rate changes. The average term of the foreign currency reserve during 1999 has been around four and a half years. The market value of the assets managed by the Riksbank is continually exposed to market fluctuations in, for instance, exchange rates, interest rates and the gold price. The Riksbank continuously measures the effect of the fluctuations on this value by Value-at-Risk (VaR) analyses which are complemented with stress tests. Value-at-Risk is a statistical method that combines the price sensitivity of assets to changes with actual historical fluctuations. VaR expresses the maximum profit/loss which can be expected to arise during a particular period of time and at a given probability level. The Riksbank uses Historical simulation⁵ and

4. The price in gold is quoted in USD.

5. The Riksbank uses a method which estimates VaR on the basis of historical volatility in asset prices and taking into consideration correlations between assets and types of assets.

estimates VaR over a one-month time horizon and at a confidence level of 95 per cent. Based on these assumptions, the total VaR of the gold and foreign currency reserve amounted to 3.5 per cent on 30 December 1999.

The stress test evaluates the effect on the market value of the foreign currency and gold reserve of extreme, unfavourable movements in market parameters that are important for the reserve. A scenario where the Swedish krona appreciated by 5 per cent in relation to other currencies, while market interest rates generally rise by 1 percentage point would lead to a negative change in value for the foreign exchange and gold reserve of around 8 per cent.

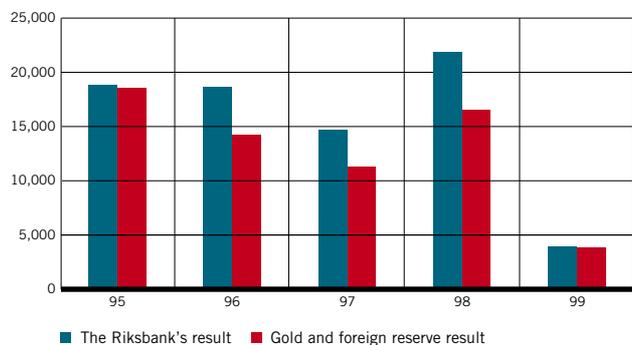
FINANCIAL RISK MANAGEMENT BY THE RIKSBANK

Financial operations generate financial risks and the management of these risks is part of operations. A well-developed risk management is a prerequisite for an effective, well-functioning management. Financial risks arise in the Riksbank's operations in foreign currency reserve management, within management of the domestic portfolio and within the payment system. Here we will only take up management of risks within foreign currency reserve management.

The responsibility for control, supervision and reporting of the Riksbank's financial risks lies at several levels. The ultimate responsibility for the Riksbank's activities is borne by the Executive Board. The divisions concerned are to deal with the risks that arise in their own operations. The Preparatory Group for Financial Risks deals with issues that concern risk policy, risk level, risk limits and evaluation. Other important functions for control, supervision and reporting of financial risks are the supervisory functions within the respective division. During the year, the Riksbank has continued its work on developing the financial risk management, among other ways by establishing a new division for risk control. The Risk Control Division is independent of the commercial activities and reports directly to the Executive Board. In addition, there is the Riksbank's internal audit which is an independent inspection function, reporting directly to the Executive Board.

Credit risk is the risk of losses due to the bank's counterparties not being able to fulfil their undertakings to the bank. To limit the Riksbank's counterparty risks within

Diagram 9. The Riksbank's total result and the result generated by the gold and foreign currency reserve over five years. Million SEK



Source: The Riksbank.

the foreign currency reserve, a limit system is used which, among things, specifies a rating requirement for approved counterparties and a maximum amount that can be invested for a certain period of time at the counterparty. The aggregated counterparty limit is expressed as a percentage of the foreign currency reserve's market value. Issuer risk is restricted by the foreign currency reserve primarily consisting of investments in government securities and securities in other institutions that are regarded as being associated with an extremely low credit risk.

Liquidity risk is the risk that the payment undertaking cannot be immediately fulfilled. The Riksbank keeps such a liquidity level that payment readiness for both current and unforeseen payment obligations can be met. With the aim of further reducing the liquidity risk, the Riksbank invests in several currencies, geographical areas and instruments for which large, liquid markets exist.

Market risk is the risk of losses on assets due to changes in interest rates and exchange rates. The Riksbank handles the interest rate risk by the Executive Board establishing the interval for the duration of the foreign currency reserve. The duration of the portfolios is checked daily. In current operations, the duration interval is supplemented with other risk and position measures, for instance Value-at-Risk (VaR⁶). The exchange rate risk is dealt with by the Riksbank investing in four different currencies with a limited correlation. The allocation between the different currencies is fixed and thus not actively managed.

6. VaR is a statistical method which expresses the maximum potential profit/loss that can arise with particular probability during a particular period of time.

Operational risk is the risk of unexpected losses due to faults that arise in the internal work. Examples of operational risk are deficient compliance with external and internal regulations, incorrect valuation models, unreliable IT systems, missing or non-existent checks. The Riksbank's operational risk is primarily limited by internal regulations and guidelines and by clear, distinct areas of responsibility.

Good stability

One of the main functions of the Riksbank is specified in the Riksbank Act as being to “promote a safe and efficient payment system”. Against this background, the Riksbank regularly reports on its view of developments in the financial system. The Riksbank also has the practical responsibility for the implementation of large payments (interbank payments) and for the supply of banknotes and coins in Sweden.

FINANCIAL STABILITY

The work on guaranteeing the stability of the payment system has become increasingly important in recent years due to the extensive changes that have taken place in the financial sector and the financial crises that have affected several parts of the world in the 1990s. The Riksbank publishes its appraisal of tendencies in the financial system and their implications for stability twice a year in the *Financial Stability Report*.

The Riksbank’s overall assessment in the reports is that the Swedish financial system is stable. However, the analysis indicates a certain build-up of risk during 1999.

From the point of view of the Riksbank, the most significant aspect is the *systemic risk* that is involved. Systemic risk refers to the risk of a disturbance in one part of the system having effects which can partly or fully disable other parts of the payment system. Such risks are mainly associated with large payments between the banks that carry out and process these types of payments. Since it is the banks that hold a central position in the payment system, it is on these institutions, particularly the four major bank groups, that the Riksbank focuses its analysis of the financial system.

The Riksbank’s analysis of the banks is divided into three main areas, corresponding more or less with different time horizons.

Strategic risks in the banking sector

The first area, analysis of *strategic risks in the banking sector*, involves a long-term perspective of risk by looking at the banks’ ability to create profitability during the foreseeable future. Weak earning capacity is liable to induce banks to take increased risks, which may then lead to considerable losses and a greater likelihood of payments being suspended. Low profitability levels in the long term can weaken the financial resilience of banks and cause them to be more vulnerable to various disturbances. Overall, the Swedish financial system in 1999 was assessed to be stable in the long term, although there were some signs of a build-up of risk during the year.

The banks showed strong profitability in 1999, which was mainly due to continued low credit losses. However, credit losses would probably increase in conjunction with a downturn in the general economy. Profitability was also dampened due to a general tendency toward increased costs. A challenge faced by the banks is to maintain sufficiently high margins to cover losses in less favourable economic situations. Strategic issues such as greater competition, technological developments and Nordic investments are of decisive importance for the profitability of the Swedish banks in a longer perspective.

Credit risks in bank lending in the medium term

The second area that was analysed is *credit risks in bank lending in the medium term*. The risks of credit losses in the banking sector were evaluated against forecasts of developments in the general economy. In 1999, the risk of credit losses in the banks was judged to be only slight, since Sweden was experiencing an economic upswing. Lending to both households and firms rose during the year. The risk of

Diagram 1. Profit before loan losses and loan losses for the major bank groups, four quarters moving average. SEK billion, 1999 prices

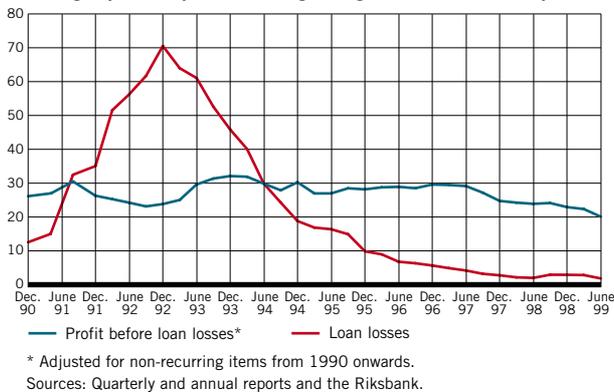


Diagram 2. Real asset prices and lending. Index: 1980 = 100 and percentage of GDP

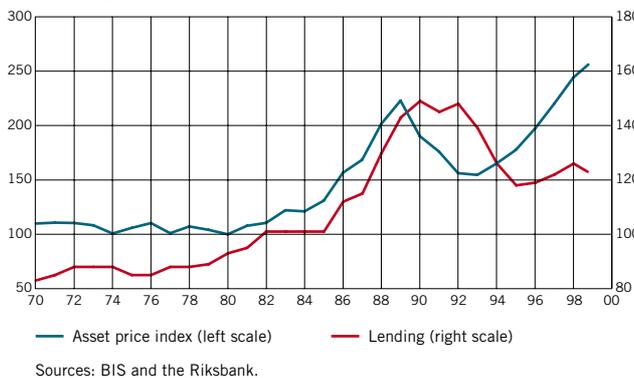
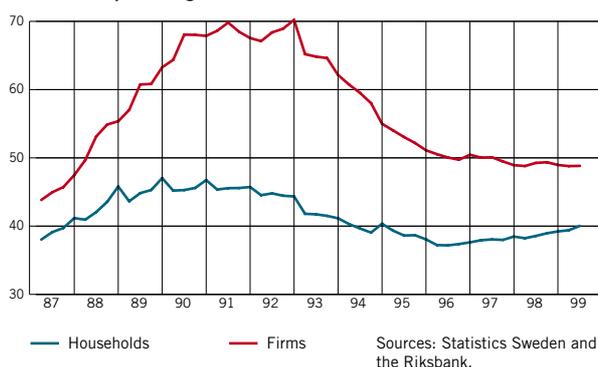


Diagram 3. Lending by banks and housing institutes to households and firms as a percentage of GDP. Per cent



credit losses was kept down by low nominal interest rates and rising asset prices in combination with a stronger economy. However, there were signs of a slight build-up of risk in the household sector as indebtedness rose in relation to disposable incomes. The ability to pay in the household

and corporate sectors was generally good, although vulnerability to rising interest rates increased during the year.

Counterparty and settlement risks

The third area, the analysis of *counterparty and settlement risks*, focused on the credit risks which occur in connection with transactions between financial firms and which can give rise to very sudden losses. The major banks normally have large exposures to each other in the form of counterparty and settlement risks. In transactions between banks, there is thus a risk of problems in one bank spreading to the other players.

In June 1999, the Riksbank began to assemble quarterly reports from the major banks on specific exposures. The results showed that these exposures were so large that the banks would encounter problems even in the event of the failure of a single counterparty. The largest exposures were found in foreign exchange trading. A positive factor was that the banks improved their risk management in this area to some extent in 1999 by introducing settlement limits and netting agreements with major counterparties.

FINANCIAL INFRASTRUCTURE

The settlement of payments between different players in the economy requires not only means of payment but also a technical and administrative apparatus – an *infrastructure* – in which payment orders are processed. This infrastructure comprises those systems that make it possible to enter into and carry out transactions in financial assets. The infrastructure therefore includes market places in which financial assets are traded, clearing systems in which payment orders are compiled and settlement systems in which ownership rights and liens in respect of financial assets are registered and definitively transferred. Normally, only a limited number of *financial firms* have access to the payment system infrastructure. Private individuals and companies must therefore turn to these financial firms when they need to use the system.

The RIX system

For all transactions in Swedish kronor, whereby one bank has a claim on another bank or is liable to pay money into another bank, final settlement takes place in the Riks-

bank's electronic system known as the RIX system. The RIX system is therefore the focal point of the Swedish payment system. Most banks and payment institutions (e.g. bank giro and postal giro) and the Riksbank itself have an account in the RIX system.

Work on the RIX system was dominated by two major processes in 1999. Firstly, the settlement of payments in euro starting January 1999 and, secondly, extensive resources were invested in testing and preparing the system for the new millennium. As part of the preparations for the TARGET system (see below), the opening hours of the RIX system were extended to 7 am to 6 pm.⁷ As a consequence of the extended opening hours combined with increased sensitivity to disturbances in systems and communication, it was necessary to strengthen the functions for surveillance and operation of the system. Resources were concentrated on guaranteeing a continually high level of accessibility and improving the reserve routines in the event of a disturbance.

In 1999, measures were also taken to reduce the liquidity requirement in the system, partly by making adjustments in the settlement schedules for participant banks. Further measures to reduce the liquidity requirement are currently being prepared.

The TARGET system

A new joint payment system for the EU, TARGET, was introduced in conjunction with the start of the third stage of EMU. The Riksbank is included in the new joint payment system. Since TARGET only processes payments in euro, the Riksbank divided up the RIX system in January 1999 into two separate parts; K-RIX for Swedish kronor and E-RIX for euro. TARGET takes the form of a decentralised network comprising the fifteen national central banks and the ECB. Via the central banks, TARGET links 5,000 commercial banks within the EU in a joint payment system.

The primary aim of TARGET is to create the necessary conditions for pursuing a common monetary policy within the entire EU area. However, TARGET also provides the banks with completely new possibilities for fast and secure processing of large payments in euro. TARGET thereby functions as an alternative to traditional payments via correspondent banks. Member banks can

7. After six months of operation, the closing time for K-RIX, the part of the system for Swedish kronor, was set to 5 pm at the request of the participants.

make and receive both cross-border and domestic euro payments. TARGET also enables real-time euro payments, i.e. within a few seconds. Payments via correspondent banks normally take at least two days.

Within the first few weeks, as many as 30 000 cross-border payments had been made in TARGET, equivalent to amounts of between 200 and 400 billion euro per day. This level has been more or less maintained. Around 1 per cent of the total volume of payments in Sweden is made through TARGET, which corresponds to around 2 per cent in terms of total amounts.

Securities settlement

Securities transactions are settled when securities change owner and payment is made. In Sweden, securities are settled by VPC AB (Swedish Securities Register Centre). Settlement takes place when the securities are transferred to a new owner at the exact same time as payment is made. The Riksbank is also involved in the settlement of securities since payments for securities transactions are made in the Riksbank's payment system, RIX, and the Riksbank requires collateral for any credits which it issues. The Riksbank is therefore involved in the work to further develop the system. In 1999, the Riksbank worked jointly with VPC to develop current settlement systems for the money market in order to establish a more efficient link between VPC's system and RIX.

SUPPLY OF BANKNOTES AND COINS

The Riksbank is responsible for the national supply of banknotes and coins. This includes ensuring that the supply of banknotes and coins is sufficient to cover society's needs, and that the security and quality of these notes and coins is such that it renders the production and spreading of false notes and coins difficult, and gives the general public confidence in cash as a means of payment.

The Riksbank is responsible for the design of banknotes and coins, including any security details. This is done in collaboration with AB Tumba Bruk, which is fully owned by the Riksbank. In order to satisfy the requirement for notes and coins, the Riksbank purchases notes and coins from AB Tumba Bruk. The stock-keeping of notes and coins takes place both centrally and in strategic stockpiles in Sweden so that the right number of notes of a reasonable quality and of the correct value can be delivered to

the right place at the right time.

The Riksbank is also responsible for destructing sorted, worn notes and redeeming invalid and damaged notes. In order to obtain the necessary information on which to base its decisions concerning the procurement, distribution and stock-keeping of notes and coins, the Riksbank monitors and assesses the flow of cash in society and sees to it that cash handling becomes more efficient and secure. A further task of the Riksbank is to spread information in society about developments in respect of notes and coins.

Reorganisation of the Cashiers' Department

During 1999, the Riksbank carried out considerable changes with regard to the supply of notes and coins. The Cashiers' Department has been reorganised and most of the operations transferred to PSAB Pengar i Sverige AB, a company wholly owned by the Riksbank. The company, which started up operations on 1 June 1999, comprises the business previously undertaken in the branch offices of the Riksbank, primarily cash handling services for banks and post offices.

The premium bond business was wound up in connection with the incorporation and the Riksbank offices were closed to the public.

The purpose of the changes was to refine the role of the Riksbank as a supervisory authority and to enhance the efficiency of cash handling services. PSAB has the exclusive right to handle the Riksbank's stocks of cash and to implement cash transactions from the bank system to banks' accounts in the Riksbank (RIX). It is incumbent upon PSAB to take a neutral stance and not to discriminate against clients and other players. The Riksbank has a supervisory role in relation to PSAB, as regulated in a special agreement.

The number of people employed in the Riksbank has fallen dramatically as a result of the changes. The Cashiers' Department had just over 300 employees prior to the changes. The new Cashiers' Department has 25 employees, and 239 people work in PSAB.

Other events in 1999

Demonetisation of old notes

On 1 January 1999, a number of notes ceased to be legal tender. These were the 1965 series of banknotes, the 1,000

krona notes from 1976, the blue 500 krona notes from 1985 and the 10 krona notes (the jubilee edition) from 1968. A large number of these notes were redeemed at the beginning of 1999, although there was still a large amount outstanding at the end of the year.

The new millennium

In connection with the turn of the new millennium, it was necessary to ensure the availability of extra cash reserves in the event of increased demand. Consequently, no notes were destroyed in 1999. The increase in the number of banknotes in circulation continued at the same rate as in recent years. The number of notes was greatest just before Christmas, when over 94 billion kronor in notes was in circulation. The corresponding value for 1998 was 83 billion kronor.

In our Y2K preparations, it was important to monitor the public's confidence in the bank system. Public concern that the banks would not be able to deal with any problems that may arise could have led to an extreme increase in the demand for cash. In 1999, the Riksbank therefore actively worked in a number of ways to provide factual information, among other things in the form of an information brochure.

The turn of the new millennium was problem-free, both in terms of system stability and the supply of cash. No serious disturbances have been reported to date. It is probable that hoarding only accounted for a small proportion of the rise in demand for notes at the end of the year.

False notes

In recent years, around 1,000 false notes have been found in circulation each year. In 1999, however, the number of false notes has more than doubled. In order to make it easier to discover false notes at an early stage, the Riksbank has intensified its information on how to recognise a genuine bank note. However, false banknotes still only account for a very small proportion of the almost 300 million banknotes in circulation.

Global financial co-operation for crisis prevention

The overall theme for global financial co-operation during 1999 was the improvement of the functioning of the international financial system in the light of the experiences from the crises of recent years. Discussions on this topic have led to newly-established groups such as the Financial Stability Forum (FSF) and the Group of Twenty (G-20), groups in which Sweden does not participate.

The Riksbank has participated in discussions mainly within the framework of the International Monetary Fund (IMF), the Bank for International Settlements (BIS), and the co-operation between the industrialised countries in the Group of Ten (G-10). The Riksbank participates in these bodies as a central bank and thus an expert organisation on financial matters. The Riksbank thus represents Swedish interests.

THE INTERNATIONAL MONETARY FUND

The task of the International Monetary Fund is to work for a stable monetary system and it can make temporary financing available to its 182 member countries in the event of balance of payment problems and severe economic crises. When such financing is provided, the countries concerned must take action to tackle the disequilibria in their economy. Sweden co-operates in the IMF with the other Nordic countries and the Baltic States. This group of countries is jointly represented in the IMF's Executive Board by an executive director.⁸ Sweden's view on matters which are discussed in the Executive Board is prepared by the Riksbank in consultation with the Ministry of Finance.

8. Denmark held the position of executive director from 1998–99. Finland will hold the post from 2000–2001 according to the rotation schedule

Surveillance, loan facilities and financial resources

During 1999, the IMF primarily focused on improving its surveillance of the international financial system with a view to preventing crises. Increased transparency and a new loan facility to be granted prior to the outbreak of a crisis for countries with a sound economy are two components of the preventive work. Standards for transparency in fiscal, monetary and financial stability policy have been developed and the IMF has begun to use these on a pilot basis in its annual evaluations of the member countries. The IMF is also in the process of building up a system for evaluating financial stability in member countries. As a step towards greater openness, the IMF has encouraged the member countries to allow publication of the reports from the annual evaluations. The report on Sweden has been published.

The financial resources of the IMF were strengthened in January 1999 when the 1998 decision to increase member contribution of capital, the so-called quotas, came into effect. In connection with this, the bilateral funds that Sweden, among other countries, had made available to IMF during 1998 within the framework of the General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB), were repaid. These arrangements were used to strengthen IMF's resources in crises that threaten the stability of the global financial system and had been activated for the benefit of Russia and Brazil.

Together with a number of other industrial countries, the Riksbank continues to guarantee loans from the BIS within the framework of the IMF-supported financing package for Brazil. The Riksbank's credit guarantee amounts to USD 300 million. During spring 1999, the Riksdag decided that the Riksbank should have a sovereign guarantee for its part of the credit guarantee to the BIS.

The Riksbank still participates in the loan arrangement, the "Second Line of Defence" for South Korea, although it is considered unlikely that the arrangement will ever be activated.

IMF's concessional loans for developing countries

During the year, the IMF has worked intensively to bring about an agreement on the financing of IMF's concessional loans to developing countries.⁹ In September 1999, it was decided to carry out an enhancement of the IMF's/the World Bank's initiative for debt relief for the poorest and most indebted developing countries¹⁰, as well as how the costs and the interest subsidies on the adjustment loans should be financed¹¹. Financing is to be shared between the IMF and bilateral lenders. A number of national decisions are still required before the new facility can come into effect.

Recently, the IMF has made various requests for contributions from the Riksbank to its concessional lending. According to the Riksbank, the legal basis for such participation from the Riksbank is unclear. The Riksbank has therefore recommended that the Government make a proposal to the Riksdag that the Riksbank Act be amended so that it is clear that, on certain conditions, the Riksbank may participate in the financing of concessional lending from the IMF.

THE EUROPEAN UNION

During 1999, the Riksbank continued to participate in the co-operation with the other central banks in the European Union (EU). Alongside the Ministry of Finance, the Riksbank was represented in the EU Economic and Financial Committee and in the Economic Policy Committee which, among other things, shall promote co-ordination of Member States' economic policies. Furthermore, the Riksbank Governor participated in the Ecofin Council's two informal meetings. The Riksbank was also involved in EU co-operation through its representation in the Com-

9. Concessional loans are loans at subsidised interest rates solely intended for developing countries.

10. The so-called HIPC Initiative, Heavily Indebted Poor Countries.

11. The Enhanced Structural Adjustment Facility (ESAF) is accordingly prolonged for the period 2001–2005. According to the decision from the Interim Committee meeting in autumn 1999 it is to change name to the Poverty Reduction and Growth Facility (PRGF).

mission's Bank Advisory Committee (BAC) and in committees within the Commission's statistical office, Eurostat.

Co-operation between the EU central banks

The introduction of the euro in the third stage of EMU dominated the co-operation between the central banks in the EU during the year. The Eurosystem is the umbrella name for the ECB and the national central banks in the euro area. The General Council of the ECB, which consists of the members of the Executive Board of the ECB and the governors of the central banks in the Member States that have adopted the euro, takes decisions on the conduct of the Eurosystem's monetary policy. The Riksbank is not a member of the General Council as Sweden is not participating in the third stage of the EMU.

The Riksbank Governor is a member of the General Council of the ECB. The General Council's responsibilities include strengthening the co-ordination of monetary policy between the Eurosystem and the non-participating countries. The General Council also contributes to some of the General Council's tasks, for instance in the field of statistics, but does not have any decision-making right in these issues. All central banks in the EU contribute moreover to the ECB's monitoring of the development of public finances in Member States and to monitoring compliance with the prohibition against monetary financing and preferential treatment in the financing of public expenditure. In this context, the ECB has underlined the importance of continued consolidation of public finances within the EU. ECB's annual reports take up developments within the whole EU, and the Riksbank participated in the preparation of such a report in spring 1999.

In support of the co-ordination within the European System of Central Banks (ESCB), the General Council has set up fourteen committees which include representatives from the national central banks. These committees meet in different constellations and the Riksbank is invited when issues within the field of competence of the General Council are dealt with.

EU co-ordination and surveillance of economic policy

In addition to the co-ordination and surveillance of economic policies in the Member States, the work of the

Ecofin Council, whose deliberations are mainly prepared by the Economic and Financial Committee, was dominated during the year by international financial structural issues, and by the priorities set by the EU Presidency Member States Germany and Finland (the European Employment Pact, co-ordination of economic policy within EU/EMU, tax policy co-operation and development of the single market for financial services).

The eleven Member States of the euro area meet separately in conjunction with Ecofin Council meetings to discuss euro related issues. During the year, this so-called Euro-11 group has also continually monitored developments in each other's economies and successively obtained increasing importance for co-ordination of the countries' economic policies.

During recent years, a number of processes for co-ordination of economic policies within the EU have been established. During the autumn, the Economic and Financial Committee and the Ecofin Council worked with an overview of the structures for economic policy co-ordination with an explicit ambition to reduce the overlap between the different processes and to further reinforce the key role of the broad economic policy guidelines in the monitoring and co-ordination of economic policy. The European Council gave its backing to the Ecofin Council's report on this at its meeting in Helsinki in December 1999.



Name: **Hans Dellmo** Age: **36** Years at the bank: **6** Department: **Economics Department**

Works as: **"Travelling inflation analyst"**

International outlook

"I have also been interested in travelling and experiencing other countries. So I jumped at the chance when the Riksbank offered me the possibility of working a year at the European Commission in Brussels. After a year in Brussels, I went on to the European Central Bank in Frankfurt where I spent two years. It was exciting to be involved in producing the convergence report. We looked at those countries which would be able to comply with the criteria for participation in EMU and assessed whether it would be sustainable in the long run. I was also involved in the process of building an analytical model for the whole ECB. Despite Sweden being outside EMU, one was respected as a Swede at the ECB. We are regarded as competent and proficient at languages.

The years abroad were very stimulating. Analysing the euro area gave rise to new and different questions. Also, it was great fun working together with people from fifteen different countries. And the food in Brussels was great too, of course!"

The broad economic policy guidelines

The broad economic policy guidelines for the EU and the Member States can be regarded as an overall financial plan for the Union. They are worked out annually by the Commission and then adopted by the Ecofin Council after discussion in the European Council. The 1999 guidelines provided considerably more detailed and country-specific recommendations than in previous years. The guidelines also pointed to the need to strengthen co-ordination between the participants responsible for different policy areas, within the framework of continued independence for the ECB and for the national central banks in the conduct of monetary policy.

The Stability and Growth Pact

The Stability and Growth Pact was created in 1998 in order to prevent an individual EU Member State getting into problems with its public finances and to secure sustainable convergence between the EU Member States' economies. Among other things, the pact requires that the Member States should achieve close to balance or a surplus in their public finances in the medium-term. Monitoring in this area is based on the stability and convergence programmes to be presented by the EU Member States once a year. The Economic and Financial Committee and the Ecofin Council made an assessment of such programmes during the first months of the year and noted that further improvement had taken place in the budgetary and debt positions of most EU Member States during 1998. It was considered that most of the Member States would achieve the medium-term budget targets of close to balance or surplus in public finances by 2002. At the same time, the Ecofin Council pointed out that most countries needed to make further efforts to create margins for unforeseen events and to cope with future costs arising from Europe's ageing population.

The Employment Pact

The Employment Pact links the Luxembourg process (on labour market issues) and the Cardiff process (on structural reform of the goods, services and capital markets) with the macroeconomic dialogue that was initiated during the German presidency. Within the framework of this dialogue, economic policy issues are discussed between participants responsible for different areas of policy, including the central banks, governments and social partners. The first dialogue took place in November 1999. By

special agreement, the Riksbank represents the central banks of the four non-participating countries for a year. It is intended to meet twice a year in future.

OTHER INTERNATIONAL CO-OPERATION

Bank for International Settlements

The Bank for International Settlements (BIS) has the task of promoting co-operation between central banks. The BIS acts as a think-tank and discussion forum for the member banks. The BIS also carries out financial transactions on behalf of the central banks and serves as the secretariat for a number of G-10 committees. In 1999, the Governor of the Riksbank was elected President and Chairman of the BIS board for a three-year period.

The Group of Ten

The Group of Ten (G-10)¹² serves as an informal forum for international economic co-operation. It originated from an agreement to supplement the resources at the IMF's disposal to remedy balance of payments crises that threaten the stability of the international monetary system. This agreement is called General Arrangements to Borrow (GAB). The co-operation within GAB takes place both among the central banks and between the central banks and the finance ministries of the member countries. During 1999, the Swedish Minister of Finance was chairman of the G-10's group of ministers and central bank governors.

During 1999, work focused on measures to improve the resolution of international financial crises. Discussions primarily concerned different ways of constructively involving the private sector. Among other things, the G-10 in co-operation with a large number of financial institutions discussed possible changes to the bond markets with the aim of finding structures that would facilitate orderly restructuring of public debt in a financial crisis.

On a mandate from the G-10 Governors, the Basel Committee on Banking Supervision put forward a proposal for reformed capital adequacy rules for banks by mid-year. The proposal was further prepared by seeking opinions from the financial sector at the same time as fur-

12. G-10 consists of eleven countries: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, United Kingdom and US.

ther work started on the details of various parts of the proposal. The Committee on Payment and Settlements Systems worked during the year with issues relating to retail payment systems and settlement risks in connection with foreign exchange trading and worked out principles for how payment systems for large value payments should be designed. The Eurocurrency Standing Committee changed its name to the Committee for the Global Financial System and mainly discussed various systemic issues during the year in the wake of the recent years' financial crises.

Financial Stability Forum and G-20

In early 1999, the co-operation group for the seven large industrial countries (G-7) decided to create a forum for promotion of global financial stability, the Financial Stability Forum (FSF).¹³ FSF is to meet the need – as revealed by the crises – for exchange of information and co-ordination between various national supervisory authorities and the supervisory authorities for different financial industries. The BIS general manager is head of FSF and BIS also provides its secretariat. A number of working groups have been established to drive the work forward. Sweden does not have a regular seat in the forum although a Riksbank staff member takes part in one of the subgroups as a representative for the Basel Committee on Banking Supervision.

The G-7 decided in September 1999 to invite a number of emerging market countries to a new forum, the G-20¹⁴. The objective of the G-20 is to discuss current international financial matters. The background to this is that emerging markets have become increasingly important for stability in the international financial system and that the G-7 countries wanted to have an informal group for discussion with these countries. Sweden does not participate directly in the group but is represented at its meetings by the country holding the EU Presidency. For Sweden, the Riksbank has supported the efforts to deepen co-operation with emerging market countries while under-

13. FSF consists of Australia, Canada, France, Germany, Hong Kong, Italy, Japan, the Netherlands, Singapore, United Kingdom and United States. The most important international institutions (IMF, the World Bank, BIS and OECD) are also represented. Furthermore, representatives take part in most central groups for regulatory issues and supervision and certain central bank committees.

14. G-20 consists of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom and United States. It also includes the President of the European Council, the ECB, the Development Committee and the International Monetary and Financial Committee and the top officials of the IMF and World Bank.

lining the importance of a central role in this area for the IMF where practically all the world's countries are represented and where continuous co-operation takes place.

Technical assistance

Technical assistance aims at helping other countries to build up expertise in various areas. The Riksbank contributes both bilaterally and through initiatives within the framework of IMF/G-10 co-operation and EU-TACIS to increase the competence of other central banks in typical central banking functions. Assistance has primarily been given to transition economies and developing countries.

Demand for the Riksbank's technical assistance has continued to increase during 1999. This applies in particular within the field of monetary policy with direct inflation targeting. The Riksbank has special expertise in this area which is of value to an increasing number of countries that have recently started to apply or are considering future application of this type of monetary policy. There is also an increasing interest in the handling of bank crises.

EMU PREPARATIONS IN THE FINANCIAL SECTOR

Following a Riksdag decision from December 1997, Sweden does not participate in the third stage of EMU. The Government Bill Sweden and Economic and Monetary Union (1997/98:25) declares that Sweden will maintain the greatest possible freedom of action with regard to possible Swedish membership of the monetary union by carrying on with the practical preparations at the national level, so as to implement a possible future transition to the euro in an appropriate manner. The co-operation between the Riksbank and the financial sector is one way of maintaining preparedness.

The Riksbank also takes part in the Government's general organisation for national preparations for the introduction of the euro. These preparations relate not only to the financial sector, but also to the business sector, the public sector, and legal and consumer issues, and are co-ordinated by a Euro Co-ordination Group at the Ministry of Finance. Since 1996, co-operation on EMU and euro issues in the financial sector has taken place under the leadership of the Riksbank in a forum called SIFS (Consultation and Information Exchange with the Fi-

nancial Sector). SIFS¹⁵ consists of a steering committee and six working groups. The steering committee discusses matters connected with the practical preparations for the introduction of the euro in the financial sector as a whole. The SIFS working groups include Riksbank experts in various fields and representatives of various parts of the financial sector. The working groups deal with euro related matters of common interest to the Riksbank and the financial sector in the following areas: the payment system, the interest rate control system, notes and coins, statistics, law and information.

Two progress reports were produced in 1999 within the framework of the SIFS. The first report described, among other things, current trends in the euro markets and the extent to which the euro was used in Sweden and the Riksbank's position and role in the European System of Central Banks. The second report presented a first outline of lead times in the financial sector. The report noted that the lead times for technical and practical changes in connection with a possible transition to the euro would vary for different financial players, depending, inter alia, on the complexity of their computer sys-

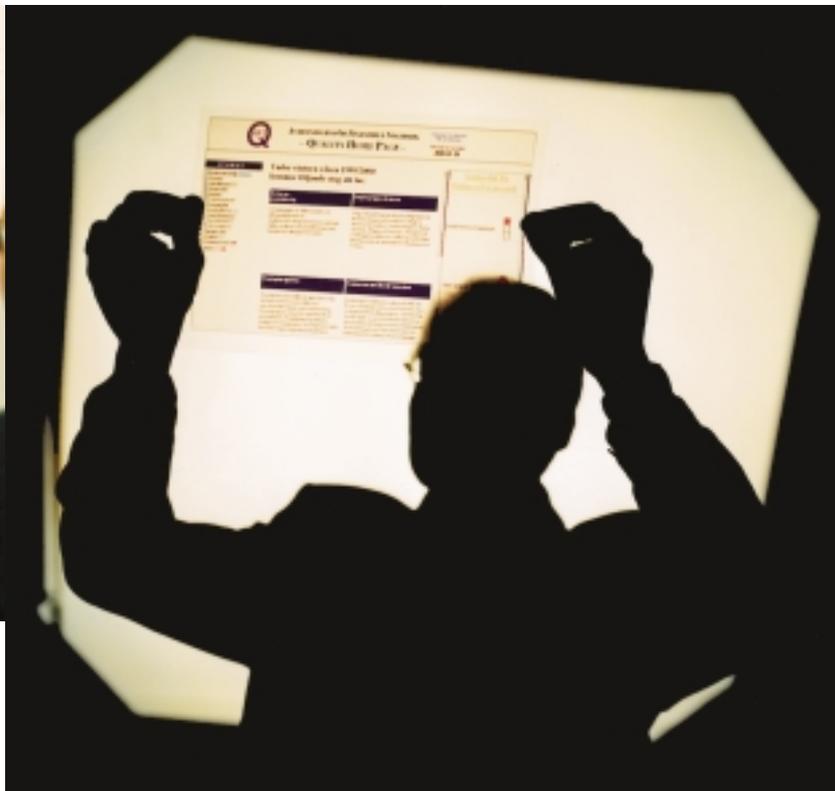
tems and the extent to which legislative and regulatory changes must be made *before* the necessary changes are implemented. Several players, including the Riksbank, OM Stockholm Stock Exchange, VPC and the National Debt Office can cope with a major part of the necessary technical and practical changes prior to admission within a year from a Swedish decision to participate.

The Riksbank has a number of adaptations to make before a possible future participation in the monetary union. For instance, the Riksbank's interest rate control system must be adapted to the requirements of the Eurosystem. The same applies to the Riksbank's payment system, RIX, the accounting system, the collection of statistics, and the legal framework. Special attention has been devoted to the lead times for introducing notes and coins in euro in Sweden, which is one of the areas with the longest estimated lead time for the final changeover to the euro as legal tender.

15. The SIFS steering group consists of representatives from the Swedish Bankers' Association, Bankgirocentralen, OM Stockholm Stock Exchange, Swedish Central Securities Depository/VPC, National Debt Office, Association of Swedish Finance Houses, Swedish Securities Dealers Association, Swedish Mutual Fund Association, Swedish Insurance Federation and Finansinspektionen. The euro-coordinator at the Ministry of Finance and the chairperson of the Bankers' Association's euro steering group are also permanently co-opted.



The aim of the Riksbank's statistical activities is to produce up-to-date, high quality statistics on the balance of payments and financial markets. Johan Östberg is head of the section Methods and publications which contributes to the transparency of the statistical activities.



Statistical work for enhanced quality

An extensive production of statistics takes place at the Riksbank within areas such as financial institutions and markets and the balance of payments. Statistics provides a basis for analysing developments on the financial markets, the effect of monetary policy and the stability of the payment system. The statistics are used both by the Riksbank and by other users such as Statistics Sweden. The balance of payments statistics provide an important basis for the compilation of the national accounts.

Statistics have become more complex and the quantity of data has increased. This has led to a greater need for methodological and accounting expertise and more use of IT tools. A start has been made on increasing the level of competence in the field of statistics and this work will continue.

A pilot project has been carried out where a new working method to increase the quality of statistics production has been tested. Work is continuing to structure and create a strategy for quality assurance work in its entirety.

EU/ECB

Collaboration in the field of statistics is governed by Article 5 of the ESCB statute, which prescribes that all Member States, regardless of whether or not they participate in the monetary union, shall endeavour to adapt their statistical systems to the common standard used for reporting to ECB. ECB needs statistics to monitor the Member States not taking part in the monetary union.

A great deal of work remains to be done, however, to adapt finance market statistics before any future Swedish entry into the monetary union, including reporting the basis for and calculation of minimum requirements. The Riksbank has already carried out a considerable amount of work on adapting its statistics as statistical systems take a long time to change.

Eurostat

The Riksbank also takes part in the work within Eurostat, in which harmonisation work primarily is focused on the various components of the balance of trade. Preparations for the changes entailed by the introduction of euro banknotes and coins will be an important part of this work.

The International Monetary Fund, IMF

The IMF has established a special statistical standard, which has been adapted by some 40 countries, including Sweden. During 1999, this standard was expanded. New statistics concerning the central government and the Riksbank's liquidity position in foreign exchange are to be published on a monthly basis. The Riksbank is publishing this information from March 2000.

In order to comply with the requirement, the Riksbank introduced a new statistical gateway on its website in January 2000, "Swedish economic and financial statistics" with current Swedish statistics and links to the government agencies that produce statistics.

Bank for International Settlements, BIS

BIS has expanded its bank statistics. The Riksbank is responsible for collection of Swedish statistics. Greater emphasis has been placed on statistics that provide a basis for assessments of stability and risks in the financial system. A changeover to quarterly reporting from the financial institutions was introduced in 1999.

Well prepared transition

The Riksbank's role

Preparations for the transition to year 2000 accelerated during 1999. In the financial sector, large resources were invested to reduce the risks of technical problems. The financial Supervisory Authority carefully monitored the preparatory work of the large and medium-sized institutions. The role of the Riksbank was linked to the ordinary duties of a central bank, i.e. conducting monetary policy, promoting a safe and efficient payment system, and ensuring the supply of banknotes and coins in the economy. This meant closely monitoring developments in areas that could affect the bank's own activities and taking action to establish confidence among the public that the financial system would function properly.

The Riksbank's brochure *Your money won't disappear with changeover to the new millennium* described the measures that the banks had undertaken to ensure that customers' account information and the normal methods of payment for customers would function as normal. This information was also disseminated in speeches and articles and the Riksbank arranged special press seminars where the media were given the opportunity to ask questions about the preparations in the financial sector. The preparatory work of the financial sector was also described in the Riksbank's *Financial Stability Reports*.

Internal preparations

The internal preparatory work started in 1997 and a great deal of work has been carried out since then. In spring 1999, extensive tests were carried out with the external parties in the RIX system.

During the latter half of 1999, work was focused on producing contingency plans and planning the transition in detail. This planning was carried out in consultation

with the ECB. During the New Year holiday, the Riksbank verified that the infrastructure and the systems that were assessed as being critical to operations functioned properly. No serious faults were detected and the IT systems started as normal on 3 January 2000. Consequently, the Riksbank's objectives for the internal Y2K work were met.

Although there is still a risk that faults can arise due to the new millennium, the acute risk for serious disruptions is now over. The Riksbank also undertook special measures for the leap year day. This work also took place in coordination with ECB.

Investment in the future

The preparatory work, which was necessary, required large resources but has also had positive effects on operations. There has been a greater focus on the operational risks in the operations. This has led to greater insight about and handling of these risks. The internal IT environment, for instance, has been modernised and is today considerably more uniform than previously. Understanding and knowledge concerning the applications have also increased which will benefit the organisation. Hopefully, this will lead to maintenance and development work being carried out more efficiently in future. Moreover, contingency plans have been developed and adapted.

This applies not only to the Riksbank but also to the financial sector in general.



A new form for cash handling

When PSAB Pengar i Sverige AB started operations on 1 June 1999 as a subsidiary of the Riksbank, the physical cash handling and the Riksbank's former network of branches with around about 300 employees was transferred to the new company.

This extensive organisational change was prepared in stages over a couple of years and carried out in close collaboration with the staff.

The parties' undertakings and obligations and the extent of supervision that the Riksbank is to exercise over PSAB are regulated by the agreements drawn up between the Riksbank and PSAB.

The Riksbank's Cashiers' Department makes regular inspection visits to PSAB to check that the agreements

are being complied with, that the Riksbank's cash stores at the company are taken care of in the agreed way and that the company is developing in the right direction. PSAB is successively adapting its activities to the challenges of operating in a competitive market.

In an organisational change that involves dividing up what was previously a co-ordinated activity into two parts, certain transitional problems are unavoidable.

Work during 1999 was therefore to a great extent focused on consolidation in the new roles. Both parties are now acting on the basis of the new prerequisites.



Name: **Sivan Rudbrant** Age: **45** Years at the bank: **26**
Subsidiary: **PSAB Pengar i Sverige AB**

Works as: **"Change worker"**

Company the best solution

"It did feel strange to say 'Pengar i Sverige' instead of 'Riksbank' when answering the phone. To begin with customers were not aware either that we had been reorganised as a limited company. As representative of our branch, I was involved in this process to some extent. We started by surveying the changes in the surrounding world that could affect our activities. Then we made a detailed plan of the cash flows in society, sounded out the potential for technical development, etc. In the next stage, we designed various future scenarios. Even though these did not have such a great impact on the decision to reorganise as a limited company, it was instructive and I think that incorporation was the best alternative. It gives us greater opportunities. Today, we are aware of the importance of profitability and realise that we have to charge for our services.

'Hinc robur et securitas' is the Riksbank's motto and means 'Hence strength and security'. I hope that PSAB as a subsidiary will also stand for that."

Competent staff undergoing continuous development

The Riksbank is to a very great extent a knowledge-intensive organisation with a large proportion of highly-educated employees. The knowledge of individuals – the human capital – is the most important resource despite it not being included in the traditional accounts. The Riksbank's overall competence and the confidence placed in it by the public is the organisation's most important intangible resource.

Personnel

At the end of 1999, 466 persons were employed at the Riksbank, 47 per cent were women and 53 per cent men. During the year, the average age of the staff decreased. The proportion of employees aged 31-40 increased by five percentage points while employees aged 41-50 fell by four percentage points and between 61-65 by three percentage points. The other age groups are unchanged or display minor changes.

During 1999, the Riksbank recruited 73 persons externally and 38 internally. Both external and internal recruitment increased compared with 1998. Of the 43 persons who left during the year, 31 did so at their own request, 11 retired and one person left because of a shortage of work. At the end of 1999, the average number of employees was 291 persons less than in 1998, which is largely due to the reorganisation of cash handling in corporate form.

There are many different vocational categories at the Riksbank including economists, statisticians, IT specialists, lawyers, security and surveillance staff, librarians, property maintenance employees, etc. Ongoing skills development is a decisive success factor for the Riksbank. Great demands are made on staff with regard to specialist knowledge, ability to co-operate and good judgment. Experience and new ideas need to work together. General competence as well as specialised skills are important.

Almost 100 of the employees are economists with widely differing responsibilities, from researchers to man-

agers of the foreign exchange reserve. The Riksbank seeks top-grade economists and most often recruits persons who have worked or carried out research for some years. Those who apply for employment at the Riksbank share an interest in society and in economic policy.

The Riksbank takes part in *Företagsbarometern*, an annual survey which Swedish economics and business administration students rank the most attractive workplaces. In 1999, the Riksbank ranked twenty-first among 120 companies. Among the economists who took part in the survey, the Riksbank came second and took first place among organisations in the public sector.

Many forms of learning

It is important for the Riksbank that employees can see with their own eyes how they can contribute to the bank's main tasks. All links in the chain must work equally well. Individual employee interviews are an established instrument for linking skills development directly to both operational and individual needs. During the year, efforts have been made to further improve employee development interviews and to stimulate mobility and flexibility. A number of members of employees have also been able to produce personal goals and development plans with the aid of individual consultancy support.

During the year, the Riksbank's internal training has focused on further training for economists and on increasing the communications skills of all members of staff. The internal courses are tailor-made for the needs of the organisation. They also create opportunities for contacts and exchange of experiences. During the year, internal training has taken place within areas such as the role of central banks, applied econometrics, mass media training, and in presentation and argumentation techniques.

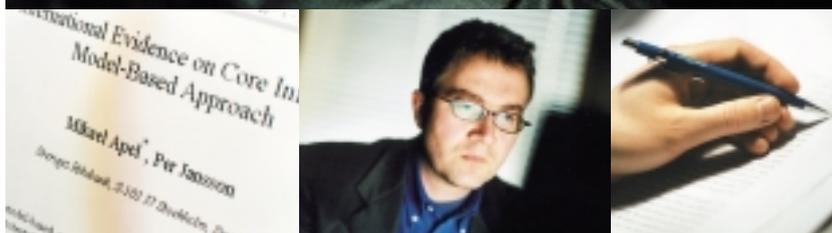
There are generous opportunities to participate in external courses in order to increase competence within

one's respective speciality and to obtain impulses and knowledge from the outside world.

An important part of learning takes place in daily work, in contacts with the outside world, and in discussions with colleagues. Knowledge based on experience is unique and cannot be replaced by any other training. Internal mobility where a change of position or department provides broader knowledge and understanding in a wider context is therefore important.

Co-operation develops and benefits from the overall competence of the bank. Work in project form at the bank has increased, among other things through comprehensive Y2K preparations, EMU adaptation, and preparations for setting up PSAB Pengar i Sverige AB. Another form of competence development is the two posts at the Research Department which were established to give staff from other departments the opportunity to concentrate on research for a period, around nine to twelve months. This system with so-called internal guests is one way of managing the human capital which gives staff with research training an opportunity to retain and develop their knowledge. Moreover, an exchange of impulses and ideas between departments is created that promotes co-operation and integration. This is also a way of creating scope for important development work.

Another typical feature of work at the Riksbank is the quantity of international con-



Name: **Mikael Apel** Age: **37** Years at the bank: **6** Department: **Economics Department**

Works as: **"Analyst in a continual process of learning"**

We never stop learning

"When we went over to a floating exchange rate in the early 1990s, the conditions for monetary policy changed quite drastically. Suddenly, completely different demands were being made on the analysis that had to be made. This started a learning process at the Riksbank which is still going on and which I have had the privilege of taking part in during the almost six years that I have been here. Knowledge has increased and, in my opinion, monetary policy today is conducted with quite a large measure of confidence. At the same time, I believe that it is important to realise that this involves a learning process, which will never really be completed. It is perhaps just that that makes the Riksbank such a stimulating place to work. One of the things I consider to be most inspiring is when you feel you reach out. This may be through an article you have written in the quarterly review being used in university teaching, or when people around the world send e-mails about a working paper you have written. During the past year, I have been able to concentrate on more long-term projects as I have been 'on loan' to the bank's research department. You often come across potential topics for research in the course of work and there is always a chance that your ideas can be developed into something that is of practical use. However stimulating the work is, there are also other sides of life that are important. As a father of small children, I really appreciate the bank's fundamentally positive attitude to parental leave."

tacts. International co-operation is increasing continually and participating in conferences, committees or working groups is a learning process for a lot of members of staff. The role as a representative of the Riksbank in meetings with participants from different cultures provides new experiences and insights.

Managerial development

A new General Council and Executive Board took office on 1 January 1999. After a general introduction to the Riksbank's activities, the new Executive Board has worked during the year on finding a functional division of roles both within itself and between itself and the rest of the organisation. Work with staff and managerial development has been further developed. Management forums, seminars and breakfast meetings have been important forms of meetings for managerial development at the bank. Moreover, managerial and leadership training have concentrated on individual managerial training with the emphasis on personal development and practical application of management. A mentor programme for managers with external mentors has been established.

Work for equality

For a number of years the Riksbank has produced an annual equality plan with concrete measures to create workplace equality. The Riksbank is endeavouring to achieve a more even distribution between the sexes at all departments and levels within the organisation. A workplace with both women and men ensures a broad competence and provides greater opportunities to make good decisions.

In 1999, the line managers were given a clearer responsibility for developing equality at the workplace. The discussion that took place during the year showed that equality work needed to be further concretised. One of the tangible goals that was set was that the proportion of women among the Riksbank's managers should be 40 per cent by 2001. During 1999, the sub-goal of 30 per cent of women managers has been achieved.

Working climate and work environment

At the end of the year, an attitude survey was carried out. Similar surveys have been carried out previously, the lat-

est being in 1997. This survey produced a good result, viewed in the light of the organisation having a new management structure and a large area of operations being reorganised in corporate form.

In a comparison with other Swedish companies and government agencies, the Riksbank showed a better result than the comparison group with regard to objectives, management, responsibility and initiative. A weaker area is co-operation and process, which means that development initiatives will be concentrated in this area during the coming year.

The attitude survey provides important information on how the Riksbank is perceived as a place of work and provides a basis for working with improvements. The overall initiatives are then followed up by new attitude surveys.

Working preventively with the working environment has been important for the Riksbank for a long time. Efforts have been focused on creating a climate that promotes commitment and good work input. The ability to handle stress and relational problems has increased as well as sensitivity to detecting such problems at an early stage. The work related to the working environment is carried out in close collaboration with occupational health care.

During 1999, three indicators – attendance, staff turnover and training statistics – began to be monitored every six months.

The result for 1999 showed that attendance and staff turnover are rather, although not alarmingly, high. Attendance mainly measures work carried out at the office and is therefore not relevant for all staff categories. The training statistic, which measures training in organised forms (courses, seminars, etc.) is around two days per employee. The indicators are mainly used in planning and improvement work at departmental and section level.

Focus on objectives and fulfilment of these

For an organisation such as the Riksbank, it is important to try to measure activities using other measures than just the economic ones. The intention is to create an organisation with an open dialogue, clear activities and measurable goals. One intention has been to find an educational instrument that everyone understands in order for staff to be able to see their role in a wider context and to be able to take part more actively in developing activities.

The approach used has been taken from the “Balanced Scorecard Model”, where key statistics are obtained from a financial perspective, a process perspective and a development and renewal perspective. During 1999, two departments, the monetary policy and foreign exchange department and the department for financial statistics, have participated in a pilot project on intensified management by results.

During the past year, operational planning has been improved and since autumn 1999, has been carried out on a continuous basis with six-monthly updates.

Continual environmental improvements

Environmental improvements are taking place continually. The consumption of printed paper was reduced during 1999 by 13 per cent compared with the previous year, but it is still over 40 tonnes which is equivalent to 65 hectares – 89 football pitches – of forest. New two-year goals are to reduce consumption by 25 per cent, i.e. 10 tonnes, without restricting the quantity of information.

The development of skills in the environmental field has continued through measures such as a seminar series for investigators and project managers.

The environmental impact of the use of banknotes and coins as means of payment has been studied.



The Riksbank building at Brunkebergstorg offers a stimulating working environment. Facilities for keeping fit have been incorporated in the design of the building. Ella Nyman Siegel at the Organisation and Administration Department is one of the guides for visiting groups. She is shown here at the recreation facility at the top of the building.

An organisation with a lot of skills

As activities become more complex, demands have increased for integration and collaboration over organisational boundaries. Work is continuing to create interdepartmental structures to facilitate co-operation in the natural work processes.

Executive Board Secretariat

The functions of the Secretariat are organised in three headings: legal, advisory and secretariat. The managerial system is also organised by the Secretariat. The legal function provides legal services for the Bank's management and departments. Together with the secretariat

function, it also provides administrative support for management. The advisory function provides management with expert advice. The secretariat carries out extensive administrative work for meetings of the Governing General Council and the Executive Board. The Secretariat also serves as a secretariat function for the Governing General Council.

During 1999, the lawyers assisted the ECB with legal matters. They also investigated the legal prerequisites for using collateral over national boundaries and surveyed the legal risks in the bank's financial activities.

Administrative Staff

Employees: 7

Executive Board Secretariat

Head: Robert Sparve

Employees: 20

Economics Department

Head: Claes Berg

Employees: 45

Monetary and Exchange Rate Policy Department

Head: Richard Gröttheim

Employees: 40

Information Department

Head: Michael Wallin

Employees: 16

International Department

Head:

Christina Nordh Berntsson

Employees: 15

Payment System Department

Head: Kai Barvèll

Employees: 52

Financial Statistics Department

Head: Sigvard Ahlzén

Employees: 46

Research Department

Head: Anders Vredin

Employees: 9

Cashiers' Department

Head: Tom Dagne

Employees: 26

Internal Auditing Department

Head: Gunilla Werner Carlsson

Employees: 6

Risk Management Department

Acting Head: Kristina Åkerberg

Employees: 4

Personnel Department

Head: Ingemar Andréasson

Employees: 12

Organisation and

Administration Department

Head: Agneta Rönström

Employees: 88

IT Department

Head: Staffan Wallén

Employees: 69

Planning and Accounting Department

Head: Lena Kvist

Employees: 11

The Economics Department

The primary function of the Economics Department is to contribute with analyses on the basis of which the Executive Board can base monetary policy decisions so that the Riksbank's inflation target is fulfilled. As it takes one to two years for monetary measures to affect inflation, policy has to be based on a forecast of the path of future inflation.

The Riksbank's analysis of the path of inflation is based on an unchanged repo rate. Economic theory and practical experience indicate that inflation is affected by four factors: international inflation, domestic demand relative to supply, cost shocks (such as changes in oil prices and indirect taxes), and

The above figures include employees on long-term leave as per 31 December 1999.

inflation expectations. A continuous analysis of these four factors is therefore a central feature of work in this Department. The major part of the results is presented by the Riksbank four times a year in the Inflation Report. The aim is to provide a simple and educational account of the analysis in order to clarify monetary policy and stimulate debate.

Continuous development work is undertaken to improve forecasting techniques and knowledge about effects of monetary policy. To support this work, the Department uses and constantly develops a number of models.

The Department represents the Riksdag on a number of EU and ECB committees, which involves a considerable amount of work on the preparation of Sweden's positions in European co-operation.

Monetary and Exchange Rate Policy Department

The practical implementation of the Executive Board's monetary policy decisions is the responsibility of this Department. This takes place by supplying or withdrawing liquidity to/from the bank system so that the shortest market interest rate, the overnight loan rate, is set close to the repo rate. The overnight rate is the main determinant for the interest rates for borrowers and investors.

The Department is also responsible for managing the Riksbank's foreign reserves, a



Name: **Peter Kvist/Magnus Vesterlund** Age: **33/29** Years at the bank: **4/4** Department: **Planning and Accounting Department/Monetary and Exchange Rate Policy Department**

Work as: **"Contingency strategists for freedom of action"**

Co-operation without borders

In 1997, the Riksdag decided that Sweden should not introduce the euro on 1 January 1999, but should keep the door open by maintaining the greatest possible freedom of action, among other ways by continuing the practical national preparations. The Riksbank is therefore working to maintain preparedness for action. The EMU Project, in which Magnus and Peter both have important roles, analyses and plans for all changes that will have to be carried out if a decision is made to join in future.

Magnus: All of the banks' specialist areas are more or less involved in this project, so a considerable amount of co-ordination is required. It always requires a lot of different abilities – specialist expertise, of course, but also flexibility, an ability to work together and the a broad perspective. **Peter:** Certain issues, for instance cash supply, affect one or two departments while others affect the entire organisation. The task is complex – and new – so we have had many discussions together to build up a common structure which we are now refining. It is also good that the climate in the project is so prestige-free and open. **Magnus:** One disadvantage is that we do not know for sure whether our work will be used, but it is motivating to be involved in many interesting things which enable us to learn more about other parts of the Riksbank's activities and to gain a large contact area. **Peter:** This is probably the biggest co-ordination project that has existed at the bank. Everyone involved has had a unique opportunity to understand how a central bank functions in an overall perspective.

portfolio mainly in the form of foreign treasury securities and gold. The foreign reserve is required for being able to maintain preparedness for decisions on changes in the exchange rate regime. The aim is to obtain as good a yield as possible within the framework of the set guidelines.

Through its operational activities, the Department obtains information about Swedish and foreign financial markets. This is an important source for the policy-related analysis which is a key task for the Department. The interpretation of market reactions and expectations about the monetary policy carried out is an important part of the basis for monetary policy decisions. Work continued in 1999 on developing methods to deepen this analysis.

The Department is also responsible for developing and monitoring the Riksbank's monetary policy operational framework, analysing how the financial markets function and for the operational EMU preparations.

Information Department

The co-ordination of internal and external information is the task of this Department. An important part of this role is to inform about the price stability target and how the Riksbank strives to achieve it.

During 1999, the electronic channels for disseminating information had their real breakthrough. New versions of the website and the intranet were launched. The monetary policy game, Stargold, intended for students, was introduced on the website. It met a positive reception and students were given the opportunity of participating in two competitions during the year with cash prizes.

An increasing number of journalists, financial market players, students and the general public have discovered the Riksbank's website during the year. This is very noticeable in the increasing number of e-mail queries. The quantity of information on the website does not lead to the number of questions declining, rather the opposite. This is, of course, positive but also requires that the large interest in the Riksbank is handled in an appropriate manner. This will continue to be an important task for the Information Department during 2000.

Information retrieval in the library centres less and less on books and increasingly on finding the correct sources quickly on the Internet and in databases. During the year, the library moved from the ground floor to new

premises close to the staff restaurant. This has resulted in more people at the bank discovering the services that the library can offer.

International Department

Participation by the Riksbank in international co-operation is co-ordinated by this Department, which also takes part in international meetings, with or instead of members of the Executive Board, and prepares such meetings.

In EU matters, the Department is particularly involved in preparing issues relating to economic policy co-operation for consideration in the Economic and Financial Committee and matters relating to participation in ESCB meetings by members of the Executive Board. The Department also performs secretariat functions for the Riksbank's joint consultations and is responsible for exchange of information with the Swedish financial sector concerning adjustments to EMU.

The Department is also responsible for preparing the Riksbank's positions on matters relating to IMF, governors meetings within the framework of G-10/BIS and G-10 meetings of G-10 ministers and governors and their deputy committee. In addition, the Department prepares certain matters to do with bilateral loans.

The Department is also building up a system for identification of those countries that constitute potential risks in the international financial system.

Payment System Department

The Department is responsible for the Riksbank's monitoring of stability in the financial system. During 1999, the development of the analytical framework for this work continued. Two Financial Stability Reports have been published. These deal with strategic risks in the bank sector, the credit risks in bank lending, and the counterparty and settlement risks that arise in conjunction with transactions between financial undertakings.

The Department is also responsible for developing, operating and monitoring the Riksbank's system for settlement of payments, the RIX system. At the end of 1998, the new settlement system for payments in euro, ERIX, was commissioned. It is now possible for banks that participate in the RIX system to make or receive payments

in real time in euro from other banks within the European Union.

The Department is also responsible for the final implementation of the Riksbank's monetary and exchange rate policy transactions and handling the collateral that the banks must provide to obtain credits in kronor and euro respectively. During 1999, preparations continued for possible future Swedish participation in ERM2 and EMU as well as securing systems for the Y2K transition.

The Department also participated actively in international co-operation primarily within the framework of G-10 co-operation and the European System of Central Banks.

Financial Statistics Department

An extensive production of statistics takes place at the Riksbank. Statistics concern such areas as financial institutions and markets and the balance of payments. Statistics are used as a basis for monetary policy and in the Riksbank's monitoring of the financial system. Statistics are also important for external users for the monitoring and assessment of financial market trends.

During 1999, an increasing emphasis has been placed on quality assurance work in the production of statistics. A pilot project has been carried out and work continues to structure and create a strategy for the quality assurance work of the entire Department.

Preparatory work for a possible future Swedish entry into EMU has continued. An extensive inventory showed that considerable adjustments remain to be carried out in the field of financial statistics. Reporting of the basis for and calculation of reserve requirements is an important part of the preparations. The balance of payments will also require considerable preparatory work.

The special statistical standard of the IMF, Special Data Dissemination Standard, SDDS, to which Sweden and forty other countries have acceded, has been expanded during 1999. The Riksbank coordinates SDDS work in Sweden.

The Department's statistics and reports are published on the Riksbank's website on the Internet (www.riksbank.se).

Research Department

The main function of the Department is to conduct research in fields of relevance to the Riksbank, i.e. primarily methods for the analysis of price stability and financial stability. The Research



Some members of the "website group" meet. – Lars Strand, Kajsa Melin-Sanchez, Kristina Löfstrand and Johannes Rosenberg. Annica Svensson (bottom row middle) is the group's motor.

Department also supports other departments in their research-related activities, for example in policy analysis and internal training. The Department also maintains contacts with researchers in the academic world outside the Riksbank.

Research is primarily concentrated to five areas. *Theoretical analysis of inflation targeting* deals with the consequences of different definitions of the Riksbank's inflation target, for example, with regard to the target horizon and choice of inflation measure. *Empirical studies of inflation and the effects of monetary policy* examines the relations between inflation and unemployment. An increasingly important area of research is *analysis of banks' credit risks*. At present, the Department's work in this area is focused on empirical analysis of credit risks. Good empirical analysis requires well-developed methods. A fourth area is therefore the *development and refinement of econometric methods*. Finally, during 1999, the Department has carried out *research into payment systems* by having guest researchers from the Payment System Department.

The Department's work is mainly presented in Working Papers. These are written in English and the aim is that they should be of such quality that they can be published in international scientific journals.

Cashiers' Department

The Cashiers' Department exercises the overall responsibility of the Riksbank for the supply of cash. This includes continuously analysing cash requirements and being responsible for the issue of banknotes and coins. The Department maintains central and strategic stockpiles and then supplies banknotes and coins to the newly-established subsidiary PSAB Pengar i Sverige AB, which is responsible for operational cash handling. In practice, its work includes evaluating technical developments and the functionality of the cash market with regard to security and efficiency. The Department also provides information on cash-related issues.

With the setting-up of PSAB, the Cashiers Department has a clearer agency role with supervisory responsibility to PSAB and a clear client role in relation to the Riksbank's other subsidiary, Tumba Bruk AB.

During 1999, work continued on the withdrawal of older banknotes that became invalid at the end of 1998. Special procedures were put in place as the Riksbank closed all cash desks for the public in connection with the

incorporation. The extensive premium bond activities in which the Riksbank had been engaged for many years were also wound up during the year. Considerable efforts were made to ensure a good supply of cash ahead of the Y2K transition. The Department also worked closely together with representatives from the banks and Sweden Post to prepare for the transition.

Internal Auditing Department

The main responsibility of the Internal Auditing Department is to examine compliance with the applicable regulations and objectives set by the Executive Board in the plan of operations and budget, to examine the accounts and accounting principles, and internal controls. This work is carried out in accordance with generally accepted auditing principles and in accordance with the plan of work annually adopted by the Executive Board.

During 1999 a lot of time has been devoted to skills development within methodology and to continued work on process analysis of the Riksbank's activities. The Internal Auditing Department also takes part in work within the ECB Committee for Internal Audit and examines the joint systems in the European System of Central Banks.

Risk Management Department

As part of the Riksbank's endeavour to improve the internal control environment, a new department was set up in 1999 with the responsibility of carrying out independent control of the Riksbank's financial risk. Financial risk refers to the risks that arise in financial activity such as interest and exchange rate risk, credit risk, liquidity risk, reputation risk, and operational and legal risk. The Department is independent from the commercial activities and reports directly to the Executive Board.

The Department measures, monitors and analyses financial risk and checks that it is dealt with within the guidelines decided on by the Executive Board. The duties also include the development and use of sound methods and procedures for financial risk management at the Riksbank.

Personnel Department

The Department is responsible for carrying out, co-ordinating and developing personnel policy and personnel strategy



issues. The Department also provides service within the wage and personnel administrative area.

The work of the Personnel Department during 1999 was largely characterised by the implementation of a new Personnel Administration system to modernise and render more efficient wage management and other personnel administration.

The other dominant issue has been the Riksbank's long-term supply of competence. The Personnel Department has been actively working with recruitment, skills development, and internal staff mobility. With the aim of retaining and developing the Riksbank as an attractive workplace, an attitude survey has been carried out among the personnel.

Organisation and Administration Department

Premises, services and equipment to enable the bank to carry out its work are supplied by this Department, which also supports the bank's organisational development work and manages the Riksbank's archive, journal, procurement, real estate, transport, security, and internal services. The Department contributes to the objective of the Riksbank by offering as efficient a service as possible.

The Department works continuously on adapting the level of service according to given frameworks. During the year, improvements have been made in telecommunications and information. Much of the Department's work has been devoted to Y2K preparation.

IT Department

During 1999, the work of the IT Department has been focused on preparing technical platforms and systems for the year 2000 transition. A lot of work has been put into creating test environments and testing systems. This work has involved a lot of the staff both inside and outside the Department.

In January 1999, the common European system, TARGET, in which the Riksbank participates was commenced. Accessibility to the system is very important and a lot of work was put into ensuring that it is maintained at a high level.

During spring 1999, a new local network was taken into operation, giving members of staff at the bank a direct Internet connection. A new wage system was also implemented during the year.

Extensive work has been put into improving operational security and functionality in the bank's front-office system. Certain parts have been rewritten and other parts replaced. They will be taken into production during spring 2000.

Planning and Accounting Department

The Department has an overall responsibility for the Riksbank's general accounts and also develops methods for directing and monitoring activities at the bank.

As regards accountancy, preparations are in hand for adapting the Riksbank's accounts to the principles and systems that are used in the central bank system. Changes are being made on a continuous basis to improve accounting and make it more efficient.

During recent years, the planning and monitoring process has been developed and refined with the aim of achieving a focus on setting goals and achieving these.

The General Council

Eleven members from 1 January 1999



From top left: Kjell Nordström, Jörgen Andersson, Sinikka Bohlin, Mats Odell, Peter Egardt, Johan Gernandt, Ingegerd Troedsson, Sven Hulterström, Susanne Eberstein, Kenneth Kvist and Britt Bohlin.

The new Riksbank Act took effect on 1 January 1999. The General Council consists of eleven members and an equal number of deputy members, all 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 Ebenstein. 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 Barbro Andersson Öhrn.

Functions

The function of the General Council is primarily to exercise supervision over and monitor the activities of the Riksbank. This mainly entails appointing the members of the Executive Board of the Riksbank, deciding on the working order for the Riksbank, managing the operations of the Auditing Department, and making recommendations to the Riksdag on the allocation of the Riksbank's net reserve.

The General Council in 1999

The General Council met twelve times in 1999. The Chairman and Vice-Chairman have regularly participated in the meetings of the Executive Board. The General Council has received regular reports from the Executive Board on operations. Among other things, the General Council has established the working order for the Riksbank, and decided within this framework to set up the Riksbank's new Risk Management Department intended to strengthen control over the risks in the Riksbank's financial activities. Furthermore, the General Council has adopted an audit plan for the General Council's Auditing Department. During the year, the General Council decided on the design of the commemorative coins that the Executive Board has resolved to issue in connection with the new millennium.

The Executive Board

The Riksbank's new management

Since 1 January 1999, the Riksbank is managed by an Executive Board which also takes decisions in all matters relating to monetary policy. The Executive Board makes all decisions collectively. The individual members of the Executive Board do not have the right of decision outside 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 with the right to speak but not to make proposals or vote. The members of the Executive Board may not ask for or accept instructions when they are fulfilling their monetary policy duties. Prior to making a monetary policy decision of major importance, the Riksbank shall inform the relevant minister. The Executive Board drafts the Riksbank's budget and submits it for the attention of the Riksdag's Standing Committee on Finance, the Office of the Parliamentary Auditors and the General Council. The Board also presents an annual report on the preceding accounting year to these bodies and at least twice a year a written report on monetary policy. The inflation report was used as a report to the Riksdag during 1999 and was supplemented with public questioning in the Standing Committee on Finance in which the Governor of the Riksbank took part. The Executive Board met 34 times during 1999.

The Executive Board in 2000

Since 1 January 1999, the six members of the Executive Board are: Urban Bäckström, Chairman and Governor of the Riksbank, appointed for a term of six years, Lars Heikensten, First Vice-Chairman, appointed for five years, Eva Srejber, Second Vice-Chairman, appointed for four years, Villy Bergström, appointed for three years, Kerstin Hessius, appointed for two years, and Lars Nyberg, who was reappointed by the General Council in December 1999 for a term of six years from January 2000.



From top left: Villy Bergström, Lars Nyberg, Kerstin Hessius, Lars Heikensten, Eva Srejber and Urban Bäckström.

Lars Heikensten is responsible for the preparation of monetary and exchange rate policy as well as international functions as a member of the EU Economic and Financial Committee and as the Governor's alternate in the IMF, G-10 and the ECB. Eva Srejber is responsible for preparation and co-ordination of international matters, the co-ordination of the financial sector's EMU preparations as well as internal and external information. Eva Srejber is the Governor's alternate at the Bank for International Settlements and has functions in the ECB. Villy Bergström is responsible for research and statistics. Kerstin Hessius is responsible for matters on means of payment, internal audit and risk management. Lars Nyberg is responsible for the preparation of matters concerning the payment system, the Riksbank's companies and Riksbank submissions. Lars Nyberg also has international functions on supervisory matters.

Directors' report

Operations

The operations of the Riksbank are governed by Chapter 9, articles 12 and 13 of the Instrument of Government (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 of the Sveriges Riksbank Act (1988:1385, most recently amended as 1999: 1258), the objective of the Riksbank's operations shall be to maintain price stability. The most important monetary policy instrument for achieving this is the repo rate. The decisions of the Executive Board during 1999 on changes of the repo rate are shown by the monetary policy and exchange rate calendar (see page 3). 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. The Riksbank fulfils this objective by overseeing the payment system and by being responsible for monitoring the cash supply in Sweden. In June 1999, the distribution and cash storage business area and the properties for these activities were transferred to PSAB Pengar i Sverige AB, a newly-started wholly-owned subsidiary of the Riksbank. However, it is still the Riksbank that has the sole right to issue banknotes and coins. According to the Riksbank Act, the General Council decides on the design of the banknotes and coins issued by the Riksbank.

The Riksbank may, in accordance with the Riksbank Act, set minimum requirements for financial institutions for monetary policy purposes by decisions in individual

cases. At present, the Riksbank does not impose any minimum requirements.

The Riksbank takes part in international co-operation mainly within IMF, BIS/G-10 and the EU and carries out an extensive production of financial statistics. In accordance with the Riksbank Act, the Riksbank issues provisions on the liability to provide the information it requires for the Riksbank's compilation of statistics.

The Riksbank carries out its activities at the Head Office in Stockholm. Until 31 May 1999, the provision of banknotes and coins took place at ten Riksbank branches and eight depots as well as at the Head Office.

Organisation

According to Chapter 9, article 12 of the Instrument of Government, the Riksbank is led by an Executive Board. The Executive Board consists of six members. During 1999, 34 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 1999, the General Council met on 12 occasions.

The General Council decides on the salary and other conditions of employment of the members of the Executive Board and on permission for a member of the Executive Board to take other employment within a year of resignation from the Board.

The General Council leads the activities at the Council's own auditing 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 Executive Board issues detailed regulations on the organisation.

The General Council elects six full-time members of 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.

According to the new Sveriges Riksbank Act, 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 accounting year. The Board also presents a written report to the Riksdag's Standing Committee on Finance at least twice a year on monetary policy.

As at 31 December 1999, the Riksbank is divided into 15 departments. There is also an administrative staff. During autumn 1999, a new department was set up, the Risk Management Department, with the intention of focusing on risk monitoring with regard to foreign exchange reserve management. Every department is led by a head of department. The heads of departments decide or delegate the right of decision within their sphere of activity. They shall 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 preparation of issues affecting the bank as a whole.

Personnel

At the end of 1999, 466 persons were employed at the Riksbank. In 1998, the corresponding figure was 754. This reduction is due to the formation of the subsidiary PSAB. Of the employees on 31 December 1999, 47 per cent were women and 53 per cent men. The age structure

Diagram 1. Age structure of personnel. Percentage breakdown

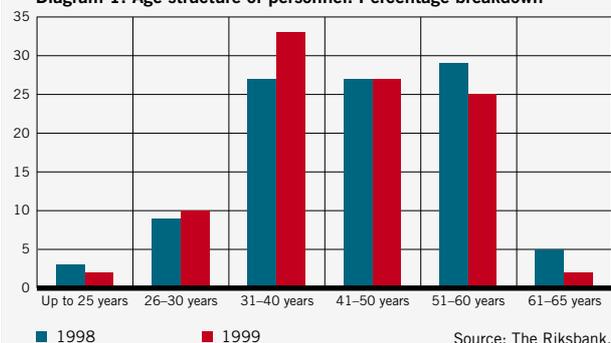
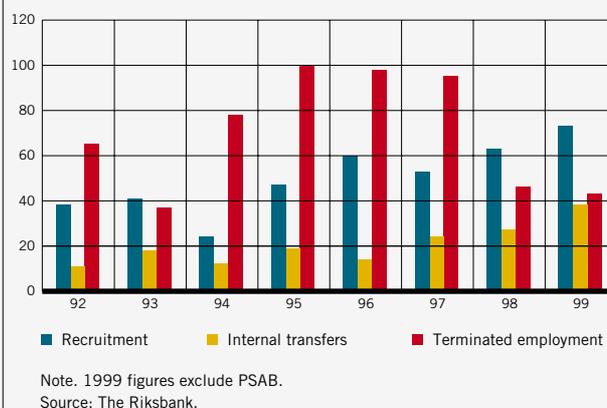


Diagram 2. Personnel mobility. Number of persons



at the end of 1999 shows that the number of employees aged 31–40 has increased slightly, while the number of employees aged 51–65 has declined compared with 1998. Otherwise, the age structure is unchanged compared with the previous year.

Personnel turnover has increased compared with 1998. During 1999, the Riksbank recruited 73 persons externally and 38 internally. Both external and internal recruitment have increased compared with 1998. Of the 43 persons who left in 1999, 31 left at their own request, 11 retired and one left due to shortage of work.

Result and position

The Riksbank's result in 1999 was SEK 3,925 million. The Riksbank's balance-sheet total increased during 1999 by SEK 14,391 million, amounting to SEK 228,765 million on 31 December 1999.

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 format of the Riksbank's balance sheet and profit and loss account has been changed compared with previous years. This change clarifies the transactions with the monetary policy counterparties and the extent to which the Riksbank's assets and liabilities relate to residents inside or outside Sweden. The concept "resident" focuses on the location of the counterparty's activities. Furthermore, this change facilitates comparability with other central banks in Europe.

Comments on the Balance Sheet

During 1999 the balance-sheet total increased by SEK 14,391 million. Events during the year that notably affected the balance sheet are reported below.

The eleventh general review of Member States' capital contribution to the IMF led to the Riksbank's capital contribution being increased by SDR 781.5 million (SEK 9,133 million) to SDR 2,395.5 million (SEK 27,995 million). The increase in the capital contribution meant that the credit arrangements General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB) were repaid during 1999. These arrangements were activated by the IMF during 1998 to the benefit of Russia and Brazil.

The item "Main refinancing operations" varies according to the bank system's need of liquidity. During 1999, the Riksbank provided the bank system with liquidity by regular repo operations.

On formation of the subsidiary PSAB Pengar i Sverige AB (PSAB), the Riksbank provided a property contribution of SEK 279 million, primarily consisting of properties and machinery. A cash contribution was also made totalling SEK 140 million.

The item "Banknotes and coins in circulation" varies with the demand for this type of means of payment. The volume of notes in circulation normally peaks around the turn of the year partly due to the increased retail turnover.

The Riksdag decided to allocate net revenue for 1998 in accordance with the Governing Board's proposal, which meant that SEK 7,600 million was transferred to the Treasury, SEK 10,639 million was transferred to the Contingency Fund and the remainder, SEK 3,624 million was transferred to the Balancing Account.

Comments on the Profit and Loss Account

The Riksbank's net revenue for 1999 amounted to SEK 3,925 million (SEK 21,863 million).

Interest income for 1999 totalled SEK 8,347 million, which is slightly lower than the interest income for 1998.

During 1999, interest rates in the United States, Germany and the United Kingdom have mainly risen while in Japan they have fallen. Overall, this has meant a negative price effect for foreign operations of SEK 4,183 million. In Sweden, interest rates have risen during the year, which entailed a negative price effect for domestic operations of SEK 2,145 million. SEK 6,215 million of the SEK 6,328 million is unrealised result.

During 1999, the krona strengthened in relation to the euro and weakened in relation to the other currencies in the foreign currency reserve, which resulted in an overall positive exchange rate effect of SEK 2,038 million.

The gold valuation effect for 1999 amounted to SEK 940 million and consists of unrealised result relating to the change in market valuation of the gold holding in 1999.

One per cent higher/lower security interest rates would have deteriorated/improved the result (the price effect) by approximately SEK 5,900 million and a 10 per

cent stronger/weaker krona would have deteriorated/improved the result (exchange rate effect) by around SEK 13,800 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. The accounting principles have not been changed during 1999.

Valuation principles

The Riksbank's listed assets are reported in the balance sheet at their current market value. The other assets and liabilities are reported at their acquisition value or their nominal amount. Receivables and liabilities in foreign currency are valued at the buying rate on the accounting day. Accrued interest is included in the market value for interest-bearing assets and liabilities.

Realised and unrealised foreign exchange gains are credited to or charged to operating result under the item "Net result of financial operations". This item also includes valuation of any forward positions and realised and unrealised exchange gains and 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 market transactions, this implies trade-day accounting. Lending and borrowing transactions, including straight repo operations, 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 sales price is registered as a liability and the pledged assets are booked off the balance sheet.

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 accruals 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, staff costs for internal development work on IT investments are included in the asset's acquisition value.

Balance sheet

Assets, SEK million	Note	31.12.1999	31.12.1998
Gold	1	14,774	13,834
Claims on residents outside Sweden denominated in foreign currency			
Receivables from the IMF	2	12,949	13,707
Balances with banks and security investments	3	125,018	108,705
		137,967	122,412
Lending to monetary policy counterparties denominated in Swedish kronor			
Main refinancing operations	4	45,596	41,581
Fine-tuning operations	5	–	2,240
Marginal lending facility	6	37	25
		45,633	43,846
Securities of residents in Sweden denominated in Swedish kronor			
	7	28,998	32,842
Other assets			
Tangible fixed assets	8	354	720
Financial assets	9	767	367
Off-balance sheet instruments	10	13	30
Accruals and deferred expenditure	11	5	12
Other assets	12	254	311
		1,393	1,440
Total assets		228,765	214,374

Liabilities and capital, SEK million	Note	31.12.1999	31.12.1998
Banknotes and coins in circulation			
Banknotes	13	94,237	82,288
Coins	14	4,213	3,980
		<u>98,450</u>	<u>86,268</u>
Liabilities to monetary policy counterparties denominated in Swedish kronor			
Deposit facility	15	257	84
Fine-tuning operations	16	4,200	–
Other deposits	17	–	1,595
		<u>4,457</u>	<u>1,679</u>
Liabilities to residents outside Sweden denominated in Swedish kronor	18	156	230
Liabilities to residents in Sweden denominated in foreign currency	19	2,018	–
Liabilities to residents outside Sweden denominated in foreign currency	20	5,256	3,641
Counterpart of special drawing rights allocated by the IMF	21	2,899	2,838
Other liabilities			
Accruals and deferred income	22	2	7
Liabilities on securities settlement proceeds	23	–	208
Other liabilities	24	69	370
		<u>71</u>	<u>585</u>
Balancing account and capital			
Balancing account	25	51,046	47,422
Capital	26	60,487	49,848
		<u>111,533</u>	<u>97,270</u>
Result for the year		<u>3,925</u>	<u>21,863</u>
Total liabilities and capital		228,765	214,374

Memorandum items, see Note 37.

Profit and Loss Account

SEK million	Note	1999	1998
Interest income	27	8,347	8,781
Interest expense	28	-393	-448
Net result of financial operations	29	-3,350	14,026
Income from equity shares	30	36	33
Other income	31	70	153
Total income		4,710	22,545
Staff costs	32	-271	-302
Other administrative expenses	33	-182	-181
Depreciation of tangible fixed assets	34	-69	-74
Banknote and coin expenses	35	-138	-117
Other expenses	36	-125	-8
Total expenses		-785	-682
Result for the year		3,925	21,863

Notes

NOTE 1 GOLD

	31.12.1999	31.12.1998
Quantity		
Troy ounces (millions)	5.96	5.96
Price		
USD per ounce	290.91	287.40
SEK/USD	8.52	8.08
Book value, SEK million	14,774	13,834

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

NOTE 2 RECEIVABLES FROM THE IMF

SEK million	31.12.1999	31.12.1998
Special Drawing Rights	2,662	3,341
Reserve position in the IMF	10,085	9,015
Advances under GAB	–	371
Advances under NAB	–	906
Other receivables	124	–
Accrued interest	78	74
Total	12,949	13,707

The Riksbank's holds Special Drawing Rights of SDR 228 million. Sweden's capital contribution to the IMF totals SEK 27,995 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 eleventh general review of Member States' capital contribution to the IMF resulted in the Riksbank's capital contribution being increased by SDR 781.5 million (SEK 9,133 million). This payment was made in Japanese yen and Swedish kronor. Due to the increase in the capital contribution, the advances under GAB and NAB were repaid in March. The item Other receivables refers to funds that have been invested in a temporary account pending a final taking of position based on future legislation.

NOTE 3 BALANCES WITH BANKS AND SECURITY INVESTMENTS

This item consists mainly of foreign treasury securities 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

Overnight loans are reported under this item, intended to fine-tune liquidity in the financial system so that their net position in the standing facilities (K-RIX accounts) as a whole is close to zero.

NOTE 6 MARGINAL LENDING FACILITY

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 consists of treasury bills, treasury bonds and a small number of other bonds.

NOTE 8 TANGIBLE FIXED ASSETS

SEK million	31.12.1999	31.12.1998
Properties		
Acquisition value	305	784
Accumulated depreciation	–111	–267
Book value properties	194	517
Machinery and equipment		
Acquisition value	351	527
Accumulated depreciation	–191	–324
Book value machinery and equipment	160	203
Total	354	720

After transfer of ten properties to PSAB during 1999, three properties remained in the Riksbank's possession at the end of 1999.

NOTE 9 FINANCIAL ASSETS

SEK million	31.12.1999	31.12.1998
Shares and rights		
AB Tumba Bruk 860,000 shares with par value at SEK 100 each	43	43
PSAB Pengar i Sverige AB 150,000 shares with par value at SEK 100 each	400	–
Swift 13 shares with par value at BEF 5,000 each	0	0
BIS 16,021 shares with par value at 2,500 gold francs each	267	267
European Central Bank 5 % of 2.7 % of total rights	57	57
Total	767	367

Shares and rights are valued at the lowest of the acquisition value and the real value on the closing day. During 1999, the shareholding in PSAB has been written down by SEK 19 million.

NOTE 10 OFF-BALANCE SHEET INSTRUMENTS

The net market value of the interest futures position is reported here.

NOTE 11 ACCRUALS AND DEFERRED EXPENDITURE

Accruals and deferred expenditure which do not relate to interest-bearing assets and liabilities are reported here.

NOTE 12 OTHER ASSETS

Primarily advances to Riksbank employees.

NOTE 13 BANKNOTES

Value of banknotes in circulation, by denomination:

SEK million	31.12.1999	31.12.1998
1,000 kronor	46,791	40,999
500 kronor	35,006	29,211
100 kronor	9,702	9,431
50 kronor	1,008	955
20 kronor	1,417	1,355
10 kronor	233	251
5 kronor	80	86
Total	94,237	82,288

NOTE 14 COINS

Value of coins in circulation, by denomination:

SEK million	31.12.1999	31.12.1998
10 kronor	1,561	1,444
5 kronor	953	901
2 kronor	8	9
1 kronor	938	880
0.50 kronor	221	208
Commemoration coins	532	538
Total	4,213	3,980

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

Deposits in the form of overnight loans are reported here, the purpose of which is to fine tune liquidity in the financial system.

NOTE 17 OTHER DEPOSITS

Amounts equivalent to purchase prices for market-maintenance repos are recorded here.

NOTE 18 LIABILITIES TO RESIDENTS OUTSIDE SWEDEN DENOMINATED IN SWEDISH KRONOR

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

NOTE 19 LIABILITIES TO RESIDENTS IN SWEDEN DENOMINATED IN FOREIGN CURRENCY

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

NOTE 20 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 21 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 246.5 million SDR.

NOTE 22 ACCRUALS AND DEFERRED INCOME

Accruals and deferred income not relating to interest-bearing assets and liabilities are reported here.

NOTE 23 LIABILITIES ON SECURITIES SETTLEMENT PROCEEDS

Liabilities on securities settlement proceeds refer to purchase amounts for purchased securities where payment has not been made. At the year-end 1999/2000, there were no securities transactions where payment had not been made.

NOTE 24 OTHER LIABILITIES

The item Other liabilities consists primarily of trade accounts payable and holiday pay liabilities.

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 account of the Riksbank consists of:

SEK million	31.12.1999	31.12.1998
Capital	1,000	1,000
Reserve fund	500	500
Contingency fund		
Allocations from net revenue	45,863	34,800
Write-up of gold reserve	12,686	12,686
Write-up of fixed assets	203	627
Write-up of BIS shares	235	235
Total	60,487	49,848

The Riksbank Act states that the Riksbank is to have capital in an amount of SEK 1 000 million, a reserve fund of SEK 500 million and a contingency fund. The size of the contingency fund is not regulated in the Riksbank Act. Since 1988 the contingency fund has been used in accordance with the guidelines set forth that year for the allocation of the Riksbank's net revenue. It is also used for entering the amounts of asset write-ups. During 1999 a transfer has been made between the items write-up of fixed assets and allocation of net revenue at SEK 424 million due to the year's depreciation and disposals of fixed assets. The change in the items balancing account, capital and result for the year is explained in the following table:

SEK million	Balancing	Capital account	Result for the year	Total
Opening balance on 1 January	47,422	49,848	21,863	119,133
Delivery to the Treasury			-7,600	-7,600
Transfer to				
Balancing account	3,624		-3,624	0
Contingency fund		10,639	-10,639	0
Result for the year			3,925	3,925
Balance on 31 December	51,046	60,487	3,925	115,458

NOTE 27 INTEREST INCOME

SEK million	1999	1998
Foreign securities	5,382	4,718
Domestic securities	1,790	2,433
Main refinancing operations	1,142	1,584
Other	33	46
Total	8,347	8,781

The item mainly includes coupon interest and interest received from the main refinancing operations.

NOTE 28 INTEREST EXPENSE

SEK million	1999	1998
Foreign liabilities	365	404
Domestic liabilities	28	44
Total	393	448

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

NOTE 29 NET RESULT OF FINANCIAL OPERATIONS

SEK million	1999	1998
Price effect		
foreign securities	-4,183	2,511
domestic securities	-2,145	1,830
Exchange rate effect	2,038	9,685
Gold valuation effect	940	-
Total	-3,350	14,026

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 change in the market value of the gold reserve during 1999.

NOTE 30 INCOME FROM EQUITY SHARES

Dividend has been received from AB Tumba Bruk and BIS at SEK 9 million and SEK 27 million.

NOTE 31 OTHER INCOME

Other income relates primarily to cash handling services during the first five months of the year. This activity was then transferred to PSAB.

NOTE 32 STAFF COSTS

SEK million	1999	1998
Salaries and benefits	157	165
Pension costs	33	32
Social security charges	57	66
Other	24	39
Total	271	302

Salaries and benefits to the six members of the Executive Board totalled SEK 9 million in 1999. 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 require-

ments for age and appointment as a senior government official made in the Ordinance would not entitle this member of the Board to any benefit according to the Ordinance. The Governing Board has decided that during the statutory qualification period, after the end of employment, members of the Executive Board shall in principle receive a full salary without a work requirement. Deduction will be made, however, for any income from other employment during this period. Regulation of holiday pay liability of SEK 6 million is also included here for staff who were transferred from the Riksbank to PSAB on incorporation on 31 May 1999. The Riksbank's staff costs would be approximately SEK 27 million higher in 1999 if incorporation had not taken place during the year.

NOTE 33 OTHER ADMINISTRATIVE EXPENSES

SEK million	1999	1998
Information, hospitality	13	11
Transport, travel	18	18
Consultants, other services	47	23
IT operation	44	36
Economics Prize	13	13
Other	47	80
Total	182	181

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

NOTE 34 DEPRECIATION OF TANGIBLE FIXED ASSETS

Depreciation according to plan of tangible fixed assets.

NOTE 35 BANKNOTE AND COIN EXPENSES

Of the total cost for banknotes and coins of SEK 138 million, SEK 89 million is for banknotes and SEK 49 million for coins.

NOTE 36 OTHER EXPENSES

Other expenses mainly consist of a write-down of SEK 88 million on properties, which were transferred when PSAB was formed. A write-down of SEK 19 million is included for the shareholding in PSAB.

NOTE 37 MEMORANDUM ITEMS

Pledged collateral

Securities with a market value equivalent to SEK 4,089 million have been pledged in connection with foreign securities repos.

Securities with a market value equivalent to SEK 51 million have been pledged as marginal collateral.

Gold with a market value equivalent to SEK 9,361 mil-

lion has been lent, including SEK 1,269 million in the form of gold repos.

Contingent liabilities

The Riksbank's pension undertaking, calculated by pension institutions, totalled SEK 346 million, of which SEK 18 million relates to staff who were transferred to PSAB in 1999 and SEK 8 million to staff who were transferred to AB Tumba Bruk in 1971.

An agreement was concluded, whereby computers for home use are leased to Riksbank employees, who have the option of buying them after three years at the current market price.

Commitments

Mutual short-run exchange support agreements with the Nordic central banks to provide up to EUR 1,000 million¹⁷.

Agreements under GAB and NAB to provide the IMF with a credit facility of up to SDR 859 million¹⁷.

Guarantee on loans to Brazil from the Bank of International Settlements (BIS). The guarantee is the Riksbank's (Sweden's) contribution totalling a maximum of USD 300 million¹⁷. The Riksdag decided during spring 1999 that the Riksbank would receive a sovereign guarantee for its contribution. The sovereign guarantee covers the period up to 2002 when the outstanding loans are to be repaid.

Undertaking to lend up to USD 312.5 million¹⁷ to South Korea as part of a second line of defence.

Forward interest rate contracts outstanding with a positive value totalled SEK 4,583 million (SEK 7,962 million) in nominal terms and SEK 29 million (SEK 38 million) at market prices. Forward interest rate contracts with a negative value totalled SEK 2,400 million (SEK 2,176 million) in nominal terms and SEK 16 million (SEK 8 million) at market prices.

Agreements where the Riksbank guarantees the value of Swedish treasury securities and treasury bonds, treasury bills and housing bonds that are 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 PSAB on 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 at most two years after the change in majority ownership.

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

17. 1999 year-end exchange rates expressed in SEK: EUR 8.56, SDR 11.69, USD 8.52.

Five-year overview

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

<i>Balance sheet, SEK million</i>	31.12.99	31.12.98	31.12.97	31.12.96	31.12.95
ASSETS					
Gold	14,774	13,834	10,825	11,933	12,289
Claims on residents outside Sweden denominated in foreign currency					
Receivables from the IMF	12,949	13,707	9,242	6,454	6,773
ECU receivables from ECB/EMI	–	–	10,598	10,578	11,764
Balances with banks and security investments	125,018	108,705	70,212	122,275	151,815
	137,967	122,412	90,052	139,307	170,352
Lending to monetary policy counterparties denominated in Swedish kronor					
Main refinancing operations	45,596	41,581	36,216	–	–
Fine-tuning operations	–	2,240	4,090	9,402	2,602
Marginal lending facility	37	25	27	236	6
	45,633	43,846	40,333	9,638	2,608
Securities of residents in Sweden denominated in Swedish kronor	28,998	32,842	53,088	59,045	71,025
Other assets					
Tangible fixed assets	354	720	700	693	642
Financial assets	767	367	475	475	221
Off-balance sheet instruments	13	30	1	3	36
Accruals and deferred expenditure	5	12	–	–	–
Other assets	254	311	221	189	8 257
	1,393	1,440	1,397	1,360	9,156
TOTAL ASSETS	228,765	214,374	195,695	221,283	265,430
LIABILITIES AND CAPITAL					
Banknotes and coins in circulation					
Banknotes	94,237	82,288	78,986	77,135	73,064
Coins	4,213	3,980	3,809	3,656	3,596
	98,450	86,268	82,795	80,791	76,660
Liabilities to monetary policy counterparties denominated in Swedish kronor					
Deposit facility	257	84	130	461	658
Fine-tuning operations	4,200	–	790	–	439
Other deposits	–	1,595	1,041	1,007	198
	4,457	1,679	1,961	1,468	1,295

Balance sheet cont.

<i>SEK million</i>	31.12.99	31.12.98	31.12.97	31.12.96	31.12.95
Debt certificates issued	–	–	–	32,040	75,142
Liabilities to residents outside Sweden denominated in Swedish kronor	156	230	286	287	246
Liabilities to residents in Sweden denominated in foreign currency	2,018	–	–	–	–
Liabilities to residents outside Sweden denominated in foreign currency	5,256	3,641	322	1,567	3
Counterpart of SDRs allocated by the IMF	2,899	2,838	2,641	2,448	2,457
Other liabilities					
Off-balance sheet instruments	–	–	34	634	–
Accruals and deferred income	2	7	–	–	–
Liabilities on securities settlement proceeds	208	–	–	–	–
Other liabilities	69	370	541	321	18,324
	71	585	575	955	18,324
Balancing account and capital					
Balancing account	51,046	47,422	46,993	42,419	28,149
Capital	60,487	49,848	45,442	40,678	44,338
	111,533	97,270	92,435	83,097	72,487
Result for the year	3,925	21,863	14,680	18,630	18,816
TOTAL LIABILITIES OCH CAPITAL	228,765	214,374	195,695	221,283	265,430
Profit and Loss Account, SEK million	1999	1998	1997	1996	1995
Interest income	8,347	8,781	9,991	13,335	24,701
Interest expense	–393	–448	–639	–5,076	–10,818
Net result of financial operations	–3,350	14,026	5,812	10,797	5,359
Income from equity shares	36	33	26	22	25
Other income	70	153	144	126	119
Total income	4,710	22,545	15,334	19,204	19,386
Staff costs	–271	–302	–270	–273	–255
Other administrative expenses	–182	–181	–147	–138	–153
Depreciation of tangible fixed assets	–69	–74	–68	–61	–61
Banknote and coin expenses	–138	–117	–164	–89	–94
Other expenses	–125	–8	–5	–13	–7
Total expenses	–785	–682	–654	–574	–570
Result for the year	3,925	21,863	14,680	18,630	18,816

AB TUMBA BRUK

AB Tumba Bruk is a wholly-owned subsidiary of the Riksbank. Its operations consist of manufacture of cotton-based banknote and security paper and printed banknotes. The company also includes the Mint in Eskilstuna.

Tumba Bruk supplies the Riksbank's requirement of banknotes and coins and is otherwise active in the international market. The industry is marked by excess capacity which is expected to increase, due, among other things, to the changeover to the euro within the euro system.

During 1999, the restructuring work which started in 1996 continued according to plan, with the aim of strengthening the company's competitiveness in a stiffer international market, by focusing activities on the market areas banknote paper and printed banknotes. During the first quarter of 1999, production of scratch and win lottery tickets and security paper for lottery tickets was wound up.

The winding-up of the lottery operation together with the restructuring work has meant that the number of employees was reduced during 1999. Net result of financial operations has improved by SEK 58 million compared with previous years.

Financial overview

SEK million	1999	1998	1997	1996	1995
Turnover	425.0	479.6	439.0	341.5	367.5
Operating income	-1.8	-62.7	15.4	-30.9	-12.7
Net result after financial items	0.0	-58.4	21.4	-21.8	1.8
Balance-sheet total	385.1	419.9	477.2	430.2	468.0
Capital employed	290.2	324.6	350.9	349.4	362.2
Adjusted equity	275.2	309.9	335.9	340.8	309.9
Capital investment	29.8	87.2	28.0	31.9	53.8
Dividend	8.6	8.6	4.3	4.3	4.3
Return on capital employed, %	0.3	neg	6.2	neg	0.8
Return on JEK, %	0.0	neg	4,6	neg	0.4
Equity/assets ratio, %	71	66	72	77	75
No. of employees	345	410	382	378	381

The Board of Directors Lars Nyberg, Chairman, Bengt Åke Berg, Lennart Bergstedt, Hans Carlsson, Gunnar Dahlsten, Bernt Ericsson, Kersti Erikson, Bajram Bektesevic, employee representative, Mats Dafthagen, employee representative. **Managing director** Lennart Bergstedt.

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PSAB PENGAR I SVERIGE AB

PSAB Pengar i Sverige AB, which is a wholly-owned subsidiary of the Riksbank, started on 1 June 1999 when properties and operations in the Riksbank's local branches were transferred to the company. The properties, which are included in a subsidiary of PSAB, are for sale. PSAB is responsible for tasks within practical cash handling which were previously carried out by the Riksbank's Cashiers' Department. PSAB thus offers services and products in cash handling, such as authenticity checks, quality sorting and counting daily takings. The company also handles deposit and withdrawal of cash for the banks and Sweden Post, which results in credits and debits on these accounts at the Riksbank.

PSAB has 239 employees and has operations in Luleå, Härnösand, Falun, Stockholm, Örebro, Karlstad, Linköping, Jönköping, Växjö, Mölndal and Malmö. The head office is situated in Tumba. There are also eight depots.

Financial review (The table refers to the parent company)

SEK million	1999
Turnover	68.8
Operating income	-33.4
Net result after financial items	-31.5
Balance-sheet total	420.2
Capital employed	403.9
Adjusted equity	388.1
Capital investment	7.5
Dividend	-
Return on capital employed, %	neg
Return on JEK, %	neg
Equity/assets ratio, %	92
No. of employees	239

The Board of Directors Lars Nyberg, Chairman, Lennart Hagberg, Gunnar Malm, Kersti Eriksen, Kjell Ehrlund, employee representative, Per Selin, employee representative. **Managing Director** Gunnar Malm.

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Stockholm, 10 February 2000

Urban Bäckström
Governor of the Riksbank

Lars Heikensten
First Deputy Governor

Eva Srejber
Second Deputy Governor

Villy Bergström
Deputy Governor

Kerstin Hessius
Deputy Governor

Lars Nyberg
Deputy Governor

Proposal to the Riksdag for the allocation of net revenue for 1999

The General Council of the Riksbank resolved on 15 February 2000 to submit the following proposal for the allocation of the Riksbank's net revenue for 1999:

SEK million	
Transfer to the Treasury	9,800
To Contingency Fund	2,978
To Balancing Account	-8,853
Total	3,925

The proposal has been calculated on the basis of the guidelines established by the General Council in 1988. This principle implies that 80 per cent of a five-year average of the Riksbank's net revenue excluding exchange rate effects shall be distributed annually.

Audit report

According to the Act, on Audit of the Riksdag's Administration and Authorities subject to the Riksdag, etc. (1988:46, most recently amended as 1999:203), the Office of the Parliamentary Auditors shall, for each completed accounting 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 1999 (report on 1999/2000 RBI). 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 1999. 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 shown by the report, the auditors recommend that the profit and loss account and balance sheet for 1999 be adopted.

When dealing with this matter, we have also examined a more detailed report of the examination of the Riksbank's accounts for 1999. This report, which we have submitted to the Riksdag's Standing Committee on Finance has been drawn up jointly by the Riksbank's 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 1999 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 1999.
2. the Executive Board of the Riksbank be granted discharge from liability for administration of the Riksbank during 1999, and that
3. the Riksdag adopt the Riksbank's balance sheet and profit and loss account for 1999.

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 (v), Kenneth Lantz (kd), Margit Gennser (m); Hans Stenberg (s), Agneta Lundberg (s), Ann-Marie Fagerström (s), Ingvar Eriksson (m) and Alice Åström (v).

In the final consideration of the matter, administrative director Åke Dahlberg (person reporting) and chief investigator Margaretha Stålfors have also been in attendance.

Stockholm, 9 March 2000

On behalf of the Office of the Parliamentary Auditors

Ingemar Josefsson

Åke Dahlberg

To the Office of the Parliamentary Auditors

Examination Report for Sveriges Riksbank, 1999

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 1999.

We have examined the Riksbank's Directors' Report and the accounts for 1999. We have further examined the audit reports of the 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 10 February 2000 on the examination made of the accounts for 1999 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 2000

KPMG

Roland Nilsson

Open communication with the surrounding world

Continued openness

For a number of years, openness has been the prestige word for the Riksbank's information and communications activities. The forms of communication have developed over time to improve the opportunities for insight into the monetary policy decision-making process.

Publications

The Riksbank's main publication the *Inflation Report* was further developed to this end in 1999. Correspondingly, *Financial Stability Reports* presented an in-depth analysis of the financial system. As well as these reports, the Riksbank issues a number of reports and publications in Swedish and English (see page 59).

Minutes of the Executive Board

An important step towards increased openness was taken during 1999 when the Riksbank decided to publish the minutes of the Executive Board's monetary policy meetings. To begin with the minutes were published with a time lag of six to eight weeks. It is now possible to obtain information on how the monetary policy decisions have been arrived at after about two weeks. Such a far-reaching insight into how monetary policy is formed is still uncommon in central bank spheres.

Speeches

The taking of office by the new Executive Board on 1 January 1999 entailed challenges but also a lot of opportunities from the point of view of communication. One of the main tasks of board members is to give an account of how the Riksbank works to achieve the price stability tar-

get. During 1999, the six members of the Board gave a hundred speeches, of which 40 were in written form and are available on the Riksbank's website. The speeches have most often concerned current monetary policy although there have been other topics such as EMU and the "new economy". Alongside the minutes, the speeches are the foremost channel for the individual board members to indicate how they view future monetary policy.

In addition, the Riksbank's officials held around fifty speeches a year at universities, university colleges and study associations. Monetary policy can be difficult to understand by studies of specialist literature alone. Follow-up evaluation showed that the Riksbank visits were much appreciated by the students.

The Riksbank's website

The Riksbank's website, www.riksbank.se became increasingly important during 1999 for communication and the dissemination of information. The website had an average of 10,000 more visitors per month compared with 1998. The peak was in October when 30,000 visits were recorded. The number of visits was boosted by the monetary policy game Stargold for young people. IT thus contributes to reducing the distance between the Riksbank and journalists, students and the interested general public. Information is available on the website about how the Riksbank "monitors stability in the financial system" as well as information about Swedish banknotes and coins.

A good website increases expectations to get more information, obtain it more quickly and in a precise and easy presentation. In order to meet these requirements, the Riksbank will invest further resources in the website as a channel for communication during 2000.

ECB reports

On 1 January 2000 the EMU and the euro currency had been in existence for a year. The ECB, analyses the economic developments in the euro area in a monthly report which is translated into Swedish and distributed by the Riksbank.

Periodical publications

Published regularly in Swedish and English:

- Annual Report – (1/year)
- Statistical Yearbook – (1/year)
- The Financial Market Report (1/year)
- Financial Stability – (2/year)
- Inflation Report – (4/year)
- Quarterly review – (4/year)

Ad hoc publications

- The Euro in the Swedish Financial Sector
 - situation report 4, October 1999
 - situation report 3, January 1999
 - situation report 2, January 1998
- Direct investments 1998 – December 1999
- The Sveriges Riksbank Act (1988:1385)
- An economic and monetary union – 1999
- There must be money in Sweden. And it must retain its value – 1999. (Updated version)

ECB publications

- Monthly Bulletins and Annual Report
- The euro banknotes and coins – July 1999
- The single monetary policy in Stage Three: general documentation on ESCB monetary policy instruments and procedures – September 1998
- TARGET: the Trans-European Automated Real-Time Gross settlement Express Transfer system – July 1998



Name: **Gabriella Zana** Age: **36** Years at the bank: **1** Department: **Information Department**

Works as: "Information seeker"

The right information at the right time

"What is most pleasing is to see the satisfaction of the person ordering the information when we manage to find the right information straightaway. In order for work at the bank to be efficient, it is important that information is obtained quickly. We work mainly for researchers, investigators and analysts at the Riksbank who are always needing the latest scientific information within their fields. It is almost impossible for everyone to find their way in the enormous flow of information. In order to provide as qualified assistance as possible, we are currently developing the library into a modern research library. We act as a link between the Riksbank and the academic world in Sweden and abroad. It is essential that the information is of high quality and we try to establish links with the best suppliers. As well as books, research reports, journals, etc. which we hold in our collections, we are, of course, linked up to databases, electronic journals, etc. We try more and more to work with customised information monitoring. We undertake needs analysis profiles for individuals and groups. And we are good at finding sources. It is fun to be able to provide good service and even more fun when you get to play detective in the process."

Mundell's theories at the centre of EMU debate



The Riksbank's prize in Economic Sciences was awarded in 1999 to Professor Robert A. Mundell for pioneering work in international economics, the importance of which has been brought to the fore by the formation of EMU.

The prize, which was established in connection with the Riksbank's 300th 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.

The 1999 prize was awarded to the Canadian Robert A. Mundell, Professor at Columbia University, New York, USA, for "his analysis of monetary and fiscal policy under different exchange rate regimes and his analysis of optimum currency areas".

Although dating back several decades, Mundell's research has become increasingly relevant with the removal of restrictions on trade and capital flows. He has inspired a whole generation of researchers and also institutions such as the IMF.

Mundell's first pioneering contribution was to improve the theoretical link between exchange rate regimes and trade to economic policy, particularly in the so-called Mundell-Fleming model.

Of greatest contemporary interest, however, is Mundell's theory from 1961 of "optimal currency areas". In 1999, a new currency area, the euro area, was created. Mundell's theory first pointed out the advantages of a common currency, such as lower transaction costs (for instance, exchange costs) and less uncertainty about relative prices. Most original, however, was his analysis of the disadvantages. If one country in a currency area experiences a downturn by itself, through an asymmetric shock, real wages must be adjusted downwards, otherwise there will be a threat of unemployment. If this does not take place, Mundell suggest an alternative, that labour moves from the affected area to other parts of the currency area. These ideas have since been extended by other economists and now form the core of the debate on EMU.

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

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



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