



Decision

DATE: 23 Mars 2021
DEPARTMENT: Markets Department

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

DNR 2021-00248

Financing of profit dividend to the Treasury in 2021

Proposed decision

The Executive Board decides that the profit dividend to the Treasury shall be financed by increasing the Riksbank's deposits in SEK from banks.

Background

Every year the Riksdag decides on the Riksbank's profit dividend to the Treasury. The size of this dividend is calculated as 80 per cent of the average dividend-qualifying income over the last five years. The calculation of the dividend-qualifying income is based on reported results, but excludes exchange-rate and gold-value effects while including the price effects reported in the revaluation account on the balance sheet. For this year, the dividend has been calculated at SEK 6.8 billion. See Figure 1 for a comparison with previous years.

The transfer of profit dividends can be funded in three different ways:

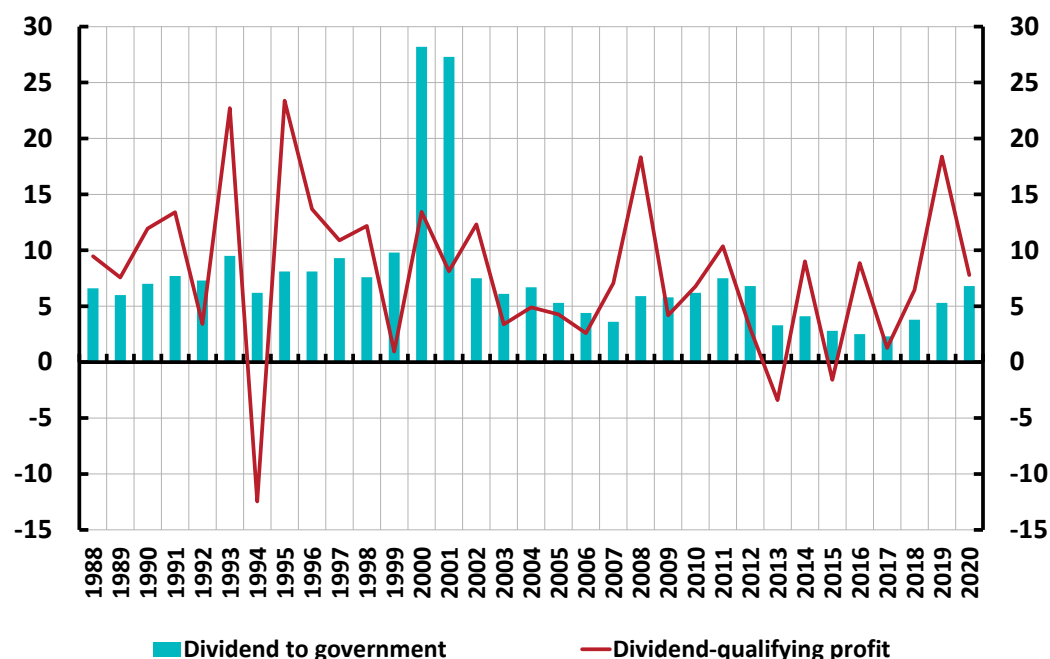
- The Riksbank sells assets in foreign currency and exchanges them for Swedish krona,
- The Riksbank sells assets in Swedish kronor,
- The Riksbank increases the deposits in SEK from banks.¹

Since 2008, when the banking system went from a deficit to a surplus, profit dividend transfers have been funded by exchanges from the foreign exchange reserves on two occasions – the years 2008 and 2014. On other occasions, the profit dividend has been financed by an increase in the Riksbank's SEK deposits from banks.

¹ The concept "deposits in SEK" is here used as a collective name for the items "liabilities to credit institutions in Sweden related to monetary policy transactions denominated in Swedish kronor" and "debt certificates issued" in the Riksbank's balance sheet.

In 2020, the Riksbank's deposits in SEK from banks changed by SEK +441 billion, from SEK 433 billion to SEK 874 billion, mainly as a consequence of the asset purchases and lending for monetary policy purposes in the wake of the coronavirus pandemic. The profit dividend for the financial year 2019 contributed SEK +5.3 billion, as the transfer was financed by an increase in the SEK deposits.

Figure 1. The Riksbank's dividend-qualifying result and dividend transferred, 1988-2020, SEK billion



The General Council of the Riksbank decided on 12 February 2021 on a proposal for allocation of profits for the financial year 2020. According to the proposed allocation of profits, the Riksbank shall distribute SEK 6.8 billion in dividend to the Treasury in spring 2021. This dividend will reduce the Riksbank's equity by the same amount. Its equity amounted to SEK 78 billion on 31 December 2020. Table 1 presents a compilation of the Riksbank's balance sheet on the last day of 2020.

Table 1. The Riksbank's balance sheet on 31 December 2020, SEK billions

Assets		Liabilities and equity	
Gold	63	Banknotes and coins	63
Foreign currency reserves	373	Deposits in SEK*	875
Receivables from the IMF	43	Foreign currency loans	174
Securities in SEK	641	Counterpart of SDR allocated by the IMF	27
Lending SEK	168	Revaluation accounts	74
Other assets	7	Equity	78
		Provisions	5
		Other liabilities	3
		Result for the year	-4
Total	1,294	Total	1,294

* Deposits in SEK comprises Riksbank Certificates and the Riksbank's standing deposit facility.

Source: Sveriges Riksbank's Annual Report 2020.

The distribution of profit dividends to the Treasury always entails the Riksbank crediting the Swedish National Debt Office' account in the RIX payment system with the amount concerned. The Swedish National Debt Office then transfers the money to a bank, which means that the banking system's liquidity surplus that must be invested with the Riksbank increases by the same amount. Banks can invest the liquidity surplus in Riksbank Certificates or in the deposit facility at the Riksbank, which together comprise the Riksbank's deposits in SEK from banks. If the Riksbank sells off assets for the same amount, in connection with the profit dividend to the Treasury, this cancels the increase of the deposits. In the current situation, however, disposal of the Riksbank's assets in Swedish and foreign currency could come into conflict with the Riksbank's monetary policy and financial stability tasks, as is described in the following:

- In February 2015, the Riksbank initiated purchases of Swedish government bonds for monetary policy purposes. To limit the negative effects of the ongoing coronavirus pandemic on the Swedish economy, a decision was taken on 16 March 2020 to make further asset purchases in Swedish kronor that also included covered, municipal and corporate bonds. The extent of these purchases has since been increased by decisions on 30 June and 25 November 2020 and purchases can now be expected to continue until the end of 2021. Selling bonds in Swedish kronor being held for monetary policy purposes could, in this situation, counteract current monetary policy.
- The Riksbank needs to retain foreign exchange reserves to be able to provide liquidity support in foreign currencies, to be able to sell currency for monetary and exchange policy purposes, and to meet international commitments, for example in relation to the International Monetary Fund (IMF). A decision on appropriate size for the foreign currency reserve and its financing is taken separately from the decision on financing the allocation of profits. According to

the most recent assessment, the contingency requirement amounts to USD 48 billion.² This can be compared with the value of the foreign currency reserves as of 31 December 2020, which amounted to SEK 373 billion, the equivalent of approximately USD 45 billion.³ In addition to this, the Riksbank has the gold reserves, valued at SEK 63 billion, which is the equivalent of just over USD 7 billion. The total size of the gold and foreign currency reserves corresponds to the estimated contingency need. Since 19 March 2020, the Riksbank has offered dollar loans to its counterparties to mitigate the negative effects of the coronavirus pandemic.⁴ A decision to reduce the foreign currency reserves by selling foreign assets in connection with the allocation of profits would reduce the Riksbank's preparedness and capacity to carry out its policy task in this situation.

In light of the above reasons, it is proposed that the Executive Board of the Riksbank decides that the year's transfer of the profit dividend to the Treasury, which has been proposed by the General Council of the Riksbank to be SEK 6.8 billion, shall be financed by increasing the Riksbank's deposits in SEK from banks.

To increase transparency, the Riksbank began reporting in 2019 how the profit dividend is financed in a news item. The decision regarding the financing of the profit dividend will therefore also be published this year as a news item.

² See press release of 6 March 2019: "The Riksbank is reducing the foreign exchange reserve and upgrading the terms and conditions for Emergency Liquidity Assistance."

³ Over the next three years, the Riksbank shall replace the currency loans that currently fund part of the foreign currency reserves, by gradually purchasing foreign currency at the same time as the currency loans are repaid when they fall due (see Executive Board decision of 12 January 2021). During this period, the size of the foreign currency reserves might vary more than usual.

⁴ On 19 March 2020, the Riksbank and the US Federal Reserve agreed on a swap facility of USD 60 billion (mutual currency arrangement). This originally ran until 30 September 2020, but was extended and now runs until 30 September 2021. As a result, the Riksbank temporarily increased its capacity to offer lending in US dollars in Sweden, but this does not mean the foreign currency reserves can decrease.