



# Decision

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DEPARTMENT: Markets Department

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## Distribution of profits to the Treasury 2020

### Proposed decision

The Executive Board decides that the distribution of profits to the Treasury of SEK 5.3 billion shall be financed by increasing the Riksbank's monetary policy liability.

### Background

Every year the Riksbank distributes profits to the Treasury. The size of this transfer is calculated as 80 per cent of the average dividend-qualifying profit over the last five years. The profit is calculated excluding exchange rate and gold value effects, but including the price effects reported in the revaluation account on the balance sheet. For 2020, the dividend has been calculated at SEK 5.3 billion. See Figure 1 for a comparison with previous years.

The distribution of profits 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 krona,
- The Riksbank increases the monetary policy liability.<sup>1</sup>

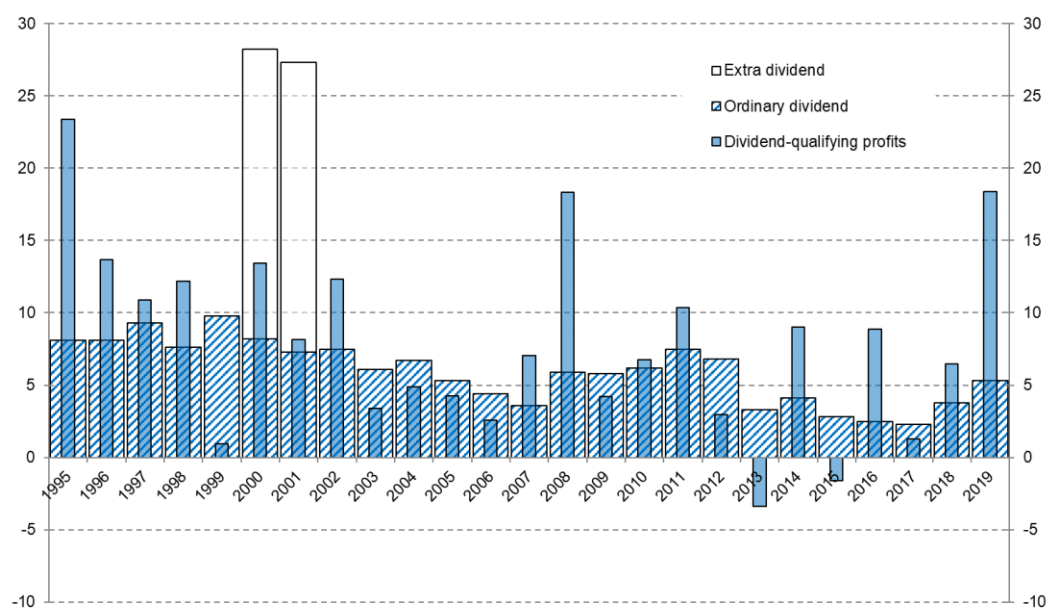
Since 2008, when the banking system went from a liquidity deficit to a surplus, profit distributions have been funded by exchanges from the foreign exchange reserves on two occasions – the years 2008 and 2014. On the other occasions, the monetary policy liability has been allowed to grow.

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<sup>1</sup> The concept "monetary policy liability" is used as a collective name for the items "liabilities to credit institutions in Sweden related to monetary policy transactions denominated in Swedish krona" and "debt certificates issued" in the Riksbank's balance sheet.

In 2019, the monetary policy liability changed by SEK -24.1 billion, from SEK 456.7 billion to SEK 432.6 billion. The profit dividend for the financial year 2018 contributed SEK +3.8 billion.

**Figure 1. The Riksbank's dividend-qualifying profits and dividends 1995-2019**



The General Council of the Riksbank decided on 14 February 2020 on the distribution of profits for the financial year 2019. In accordance with the calculated allocation of profits, the proposal means that the Riksbank shall transfer SEK 5.3 billion in dividend to the Treasury during spring 2020. This transfer will reduce the Riksbank's equity by the same amount. Its equity amounted to SEK 57 billion on 31 December 2019. Table 1 presents an up-to-date compilation of the Riksbank's balance sheet on the last day of 2019.

**Table 1. The Riksbank's balance sheet on 31 December 2019, SEK billion**

Assets		Liabilities and equity	
Gold	58	Banknotes and coins	63
Foreign currency reserve	420	Monetary policy liability*	433
Receivables from the IMF	40	Foreign currency loans	193
Securities in SEK	376	Counterpart of SDR allocated by the IMF	29
Other assets	6	Revaluation accounts	82
		Equity	57
		Other liabilities	43
<b>Total</b>	<b>900</b>	<b>Total</b>	<b>900</b>

\*The monetary policy liability comprises Riksbank Certificates and the Riksbank's standing deposit facility.  
Source: Corporate Services Department/Accounts division's Monthly accounts for January 2019.

The distribution of profits to the Treasury always entails the Riksbank entering the amount concerned as a liability in the Riksbank's account with the Swedish National Debt Office through the RIX payment system. The Swedish National Debt Office then transfers the money to a bank, which means that the banking system's liquidity surplus that must be placed with the Riksbank increases by the same amount. The banks can choose between placing the liquidity surplus in Riksbank Certificates or in the deposit facility at the Riksbank, which together comprise the Riksbank's monetary policy liability. If the Riksbank sells off assets in connection with the transfer of profits to the Treasury, this neutralizes the increase in the monetary policy liability. Sales of the Riksbank's holdings in Swedish or foreign currencies would come into conflict with the Riksbank's other assignments, however.

In February 2015, the Riksbank initiated purchases of Swedish government bonds for monetary policy purposes. The Executive Board decided in April last year that the Riksbank should purchase government bonds for a nominal value of SEK 45 billion from July 2019 to December 2020. This corresponds to around half of the principal payments and coupons that the Riksbank will receive from the bond portfolio during this period. On 16 March 2020, a further decision was taken on asset purchases in Swedish krona to be made over the year to limit the negative effects that the ongoing coronavirus pandemic is having on the Swedish economy. Selling Swedish government bonds in this situation would therefore counteract the purpose of the monetary policy being conducted at present.

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 rate 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 distribution of profits. According to the most recent assessment, the policy requirement

is USD 48 billion.<sup>2</sup> This can be compared with the gold and foreign currency reserves' value as of 31 December 2019, which was SEK 478 billion, which corresponds to around USD 51 billion. The size of the gold and foreign currency reserves corresponds to around what is currently estimated to be the contingency requirement. On 19 March 2020, the Riksbank moreover decided to lend up to USD 60 billion to counteract the market unease prevailing in the wake of the coronavirus pandemic.<sup>3</sup> A decision to reduce the foreign currency reserve by selling assets in connection with the distribution of profits would reduce the Riksbank's capacity to carry out its monetary policy task in this situation.

Thus, we propose that the Executive Board decides that the distribution of profits to the Treasury of SEK 5.3 billion shall be financed by increasing the Riksbank's monetary policy liability.

With the exception of the profit distributions in 2014 and 2019, the Riksbank has not in previous years communicated any information about how the profit transfers to the Treasury are financed. To increase transparency, the Riksbank began reporting in a news item with effect from last year, how the profit distribution is financed. The financing of the profit distribution will thus also be published as a news item this year.

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<sup>2</sup> See the press release published on 6 March 2019: "The Riksbank is reducing the foreign exchange reserve and upgrading the terms and conditions for Emergency Liquidity Assistance."

<sup>3</sup> On 19 March 2020, the Riksbank and the US Federal Reserve agreed on a swap facility of USD 60 billion (mutual currency arrangement). As a result, the Riksbank is increasing its capacity to offer loans in US dollars in Sweden.