

DECISION

DATE: 10 January 2024
DEPARTMENT: Markets Department
REFERENCE: Carina Selander and Per Magnell
DNR: 2024-00064

Financial provisions (risk provisions) for the financial year 2023

The Riksbank's decision

No financial provisions (risk provisions) or reversals are made for the financial year 2023.

Grounds for the decision

Introduction

The Riksbank's balance sheet contains assets and liabilities that entail a risk of financial losses. Since 2020, the Riksbank has decided on the size of the item risk provisions on the balance sheet every financial year.¹

The Executive Board may decide to make provisions for financial risks if there is a need to strengthen the risk buffer and the resilience of the balance sheet. If losses arise that lead to the absence of dividends to the State, or if the risk-absorbing buffer is deemed to be too large, the Executive Board may instead decide to reduce the balance sheet item for the risk provisions by a reversal of the funds allocated. This would strengthen the reported and dividend-qualifying result.

The possibility of making financial risk provisions or reversals and the amount of the provision or reversal for an individual financial year therefore depend to a large extent on the Riksbank's earnings and dividend. In 2022, the Riksbank made

¹ See Decision on provisions for financial risk 2020 (DNR 2020-01285); Decision on provision for financial risk 2021 (DNR 2021-01343); and Decision to rebalance previously allocated funds for financial risk 2022 (DNR 2023-00059).

a reversal of previous risk provisions. For the financial year 2023, there are therefore no previously made risk provisions to be used.

Legal conditions

The Riksbank may to a reasonable extent make financial provisions (risk provisions) in accordance with the European Central Bank (ECB) Guidelines in accordance with Chapter 8, Section 11 of the Sveriges Riksbank Act (2022:1568).² The 1988 Sveriges Riksbank Act that previously applied had no corresponding regulation.^{3 4}

Risk provisions pursuant to the Sveriges Riksbank Act can be made to cover a known or expected loss or risk, the cost of which cannot be accurately estimated. For example, if the loss is realised, the allocated funds shall be used to mitigate its effects on the final result.⁵ Risk provisions may only be made to a reasonable extent. This means that a provision shall be necessary on the basis of a need for consolidation of the Riksbank's balance sheet and that the size of the provision shall be in proportion to the size of the expected loss or cost.⁶

In the Riksbank's assessment, consolidation need should refer to the need to maintain or strengthen its financial position by means of provisions from income, or an increase in capital by means of funding with the aim of increasing the resilience of the balance sheet.

According to the European Central Bank's guidelines, a central bank may make provisions for financial risks. The size of these and their use shall be assessed on the basis of a reasoned estimate of the risk exposure of the central bank.⁷ For the purposes of the guideline, 'provisions' means an amount that is not included in the calculation of profit or loss, but is instead set aside to cover a known or expected liability or risk whose cost cannot be accurately estimated. The guideline does not allow provisions for future liabilities and costs to be used to adjust the value of assets.⁸

² The European Central Bank Guidelines (EU) 2016/2249 of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central banks (ECB/2016/34)/13) (European Central Bank Guidelines) (as last amended by European Central Bank Guidelines (EU) 2021/2041 of 11 November 2021).

³ The Sveriges Riksbank Act (1988:1355).

⁴ Pursuant to the 1988 Sveriges Riksbank Act, the Riksbank has decided on risk provisions in accordance with good accounting practice and the European Central Bank Guidelines.

⁵ Government Bill 2021/22:41 p. 243.

⁶ Government Bill 2021/22:41 pp. 150-151 and p. 243.

⁷ Article 8, European Central Bank Guidelines.

⁸ See Annex II to the European Central Bank Guidelines.

Decisions on risk provision can be made on an ongoing basis during the financial year.⁹

Considerations

The Riksdag adopted the Riksbank's allocation of profit for the financial year 2022 in the spring of 2023. This meant that the Riksbank's equity became negative. It will thus be less than one third of the target level according to the annual report for the financial year 2023. According to Chapter 8, Section 15 of the Sveriges Riksbank Act, the Riksbank shall in this case submit a petition to Parliament for the restoration of equity.

The target level when the Sveriges Riksbank Act entered into force was SEK 60 billion. For the financial year 2023, this will be adjusted upwards in line with the annual percentage change in the CPI.¹⁰ The outcome for December 2023 will be published by Statistics Sweden on 15 January 2024.

For the financial year 2023, the Riksbank is expected to make a profit of SEK 16 billion and the Riksbank's equity is expected to increase to SEK -2 billion.¹¹ Equity will thus remain below one third of the target level according to Chapter 8, Section 15 of the Sveriges Riksbank Act.

Chapter 8, Section 12 of the Sveriges Riksbank Act contains regulations on the General Council's allocation of the results. When the Riksbank's primary capital does not reach the basic level, a profit shall be used for loss coverage (appropriation of profit) of the primary capital in accordance with this regulation. Such loss coverage will result in the build-up of equity in an amount corresponding to the profit. This build-up will be obtained through restricted and thereafter unrestricted equity (cf. Chapter 8, Section 8 of the Sveriges Riksbank Act).

The build-up of the primary capital would increase equity, as opposed to a provision that would not increase equity. Given that equity is below one third of the target level, the build-up of the primary capital is expected to better meet the need for consolidation. This means that a risk provision is not necessary on the basis of a need for consolidation.

Given this, there are no conditions for making risk provisions for the financial year 2023. This means that there is no need to estimate the need for risk provisions or

⁹ Government Bill 2021/22:41 pp. 150-151 and p. 243. According to the Sveriges Riksbank Act, the Riksbank's so-called policy decisions must contain a proportionality assessment and justification, see Chapter 1, Section 8 and Chapter 11, Section 6 of the Sveriges Riksbank Act.

¹⁰ The definition of the target level and the basic level, as well as rules for how the upward adjustment is to be made are found in Chapter 8, Sections 9 and 10 of the Sveriges Riksbank Act.

¹¹ This will be done after the approval by the Riksdag of the General Council of the Riksbank's decision on the allocation of results in spring 2024.

how these are to be used (cf. Article 8 of the guidelines of the European Central Bank).

In summary, no financial provisions (risk provisions) or reversals are made for the financial year 2023. As there are no previously allocated funds, no reversals can be made and thus the reported provisions for 2023 are unchanged compared to the financial year 2022.

This decision has been taken by the Executive Board (Governor Erik Thedéen, First Deputy Governor Anna Breman and Deputy Governors Per Jansson and Aino Bunge) following a presentation by adviser Carina Selander and Head of Division Henrik Gardholm. Deputy Head of Department Lena Strömberg, and legal advisor Per Magnell took part in the final administration.