

Submission to the Riksdag

2018/19:RB1

## Annual Report for Sveriges Riksbank 2018

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To the Riksdag

Sveriges Riksbank hereby submits the Riksbank's Annual Report for 2018 to the Riksdag. In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the Annual Report includes an administration report, a balance sheet, a profit and loss account and an assessment of the Riksbank's internal control.

In the administration report, the Riksbank describes how the Bank has conducted monetary policy, promoted a safe and effective payment mechanism and carried out other tasks during the financial year.



*The Executive Board proposes*

that the Riksdag adopt the Riksbank's profit and loss account and balance sheet for the financial year 2018 as proposed in the Annual Report.

Stockholm, 14 February 2019

On behalf of the Executive Board

STEFAN INGVES

/Katarina Grönvall

Stefan Ingves, Kerstin af Jochnick, Martin Flodén, Per Jansson, Henry Ohlsson and Cecilia Skingsley participated in the decision.

The Reporting Clerk was Sofia Kåhre.

# Table of contents

Statement by the Governor .....	4
ADMINISTRATION REPORT.....	8
The tasks and role of the Riksbank.....	8
Organisation and management.....	13
Maintaining the value of money – price stability.....	24
A safe and efficient payment system .....	40
Asset management.....	56
BALANCE SHEET AND PROFIT AND LOSS ACCOUNT .....	70
Accounting policies .....	70
Balance sheet.....	75
Profit and loss account.....	77
Cash flow statement.....	78
Notes.....	81
The profit and loss account and balance sheet by function.....	100
Five-year overview .....	104
INTERNAL CONTROL.....	107
ANNEXES	
The departments of the Riksbank and their tasks.....	108
Consultation work of the Riksbank.....	110
The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2018 .....	111
Glossary.....	112



## Statement by the Governor

*Four years ago, we at the Riksbank devised a strategic plan aimed at our jubilee in 2018. Our strategic goals concerned being a forward-looking central bank that contributes towards a stable economic development for households and corporations in Sweden, produces results of high quality, and communicates in an easily accessible and clear manner. This year, the world's oldest central bank has turned 350 years of age, and I can look back on what has been a good year in many respects, in which we have largely fulfilled our goals. During a year of continued expansionary monetary policy, inflation has been close to the 2 per cent target. In December, monetary policy was made somewhat less expansionary, and the repo rate was raised to -0.25 per cent. The Swedish economy has had a positive development and the Swedish financial system has functioned well. In 2018, the Riksbank has in addition been an even more open central bank, not only figuratively speaking, but also literally.*

### **350th jubilee**

On 22 September, 350 years to the day on which Riksens Ständers Bank – now Sveriges Riksbank – was founded, the Riksbank opened its doors to the public. We arranged tours of the building and talked about its art and architecture. Real gold bars from Sweden's gold reserve were on display, as well as a copy of the world's largest copper coin. I and my colleagues from the Riksbank's Executive Board offered lectures, and our experts were on hand to talk about the Riksbank's tasks, and how our work affects people's daily lives. Around 1,300 people visited the Riksbank building at Brunkebergstorg that day.

The jubilee was celebrated throughout 2018, with a great number of activities for both employees and the general public. To reach out to citizens and spread knowledge about the Riksbank's role in the Swedish economy, I and my colleagues from the Executive Board have also been on a jubilee tour from Luleå in the north to Malmö in the south, holding lectures on the theme "From copper coins to e-krona" and of course – as is fitting on birthdays – cake was served.

Another important feature of the jubilee activities was the jubilee conference on the theme "The role of central banks – in the past, present and future" which we arranged together with our principal, the Riksdag.

### **Payment market in transformation**

Besides these activities, during the year the Riksbank has carried out significant initiatives in several important areas, not least within the payments function. Already 350 years ago, the Riksbank's tasks were about safeguarding price stability and managing means of payment – tasks that we still have today,



albeit in somewhat altered form. The payment market is now undergoing rapid developments, which requires the Riksbank to be innovative. In our early history, the Bank's forerunner could facilitate payments by issuing banknotes so that people did not have to carry heavy copper coins around. Today, we have to find new solutions in order for the payment system to continue to function well.

The payment market is changing rapidly, and we have seen a sharp decline in cash use in Sweden – a turn of events that differs from other countries. In the past year, we have therefore spent a great deal of time on issues pertaining to payments and the payment system. The public-sector role – not least in the form of the central bank – is becoming increasingly important in line with the decline in demand for cash. If one day cash were no longer viable, there would no longer be a state-guaranteed means of payment for the general public. The implications of this for stability in Sweden's monetary system, and for confidence in our country's currency, are unknown. For this reason, we at the Riksbank have commenced an analysis of the possibilities of issuing digital central-bank money, so-called 'e-krona', which could ensure that the general public will still have access to a state-guaranteed means of payment in future too.

### **The extensive changeover of banknotes and coins has gone well**

The biggest changeover of banknotes and coins in Sweden's history was completed on 30 June, which was the last date on which the invalid 100- and 500-krona banknotes could be redeemed at banks. During the year, the Riksbank published an evaluation of the extensive project which, from decision to completion, had run over a ten-year period and had at times been labour-intensive, not least for the trade sector and banks. Our conclusion is that the changeover process has been complex, but that it has been completed successfully. Our new Swedish money is modern, has a uniform design and is to a high security standard. Additionally, the environmental impact from production and handling is lower than for the old coins, due to changes to content, size and weight.

### **Expansionary monetary policy**

The Swedish economy continued to grow in 2018. Economic activity abroad was also relatively strong, despite somewhat of a slowdown in GDP growth compared with prior years. As a small, open economy, Sweden is greatly affected by international developments. Even though inflation has been close to the Riksbank's target for quite some time, there has been uncertainty surrounding underlying wage and price pressure. In 2018, we therefore continued to conduct expansionary monetary policy with the purpose of safeguarding the inflation target and contributing towards sound economic developments. The repo rate was held unchanged until the final monetary policy meeting in December, at which we decided to increase the repo rate from –0.50 per cent to –0.25 per cent. Economic activity was strong, and inflation



and inflation expectations were established around 2 per cent. We therefore considered it appropriate to ease off monetary policy support somewhat.

### **Continued unease over household debts**

The Swedish financial system functioned well in 2018, and in our opinion the financial infrastructure was safe and effective overall. For a long time, we at the Riksbank have been expressing strong concern about households' debts being too high for the situation to be sustainable in the long term. During the year, debts have continued to rise in relation to households' disposable incomes. Because households have large debts, while at the same time most have taken out their mortgages at a floating rate, it is probable that households will be forced to cut back on their consumption when interest rates eventually start to increase. There is a risk that this might curb growth and aggravate any future economic downturn. In order for a long-term sustainable development of the Swedish economy, it is important that politicians agree on both housing policy and fiscal policy measures. Naturally, the low interest rates contribute to increasing the risks in household indebtedness. However, the Swedish interest rate is set in a global context, and with an aim to stabilise inflation around the inflation target. Because we have been in a low-inflation environment and had low interest rates for a long time now, the Swedish interest rate cannot deviate too much from those abroad. Also, there is a lot to suggest that it is primarily structural deficiencies on the housing market, and distortions in the tax system, that are the reasons for much of the increase in debt.

### **New strategic plan**

At the end of 2018, the Riksbank decided on a new strategic direction for the next four years that strengthens the Bank's governance and coordination. An altered financial landscape, digitalisation, climate threats, protectionist tendencies and heightened geopolitical uncertainty are some of the international factors that we as a central bank must monitor. In recent years, the world's oldest central bank has, in different ways, strived to be a 350-year-old at the forefront. We now enter 2019 with an innovative mindset and high level of preparedness for a strong and secure economy on behalf of the citizens of Sweden.

### **Good work environment and important collaborations**

Competent employees who thrive at work and feel that they have meaningful tasks are fundamental to the ability of an organisation to deliver high-quality results. The latest employee survey showed that just over eight out of ten Riksbank employees feel considerable motivation in their work and are proud to work for the Bank. I am also delighted that this year's surveys of the organisational and social work environment also confirmed that a large proportion



of employees feel content with their work situation. I am proud to lead an authority where we, in my opinion, live up to our vision of being “among the best”. I would like to thank my colleagues from the Executive Board, all of the Riksbank’s employees and the Swedish authorities with which we cooperate, for their important input during the year.

The Riksbank’s financial statements show a result of SEK 3,522 million for the 2018 financial year. Besides the financial accounts, this annual report contains an overall description of the Riksbank’s activities within the Bank’s main areas. For more detailed descriptions, references are provided to publications and reports published during the year, as well as reference to the Riksbank’s website. The glossary in Annex 4 explains important words and terms, making the report easier to read.

# ADMINISTRATION REPORT

## The tasks and role of the Riksbank

*The Riksbank is Sweden's central bank and a public authority under the Riksdag (the Swedish parliament). The Riksbank is responsible for conducting Swedish monetary policy, with the objective of maintaining price stability. The Riksbank also has the task of promoting a safe and efficient payment system.*

### **Maintaining the value of money – price stability**

Under the Sveriges Riksbank Act, the Riksbank shall maintain price stability, which means that inflation should be low and stable. The Riksbank has specified an inflation target, according to which the annual change in the consumer price index with a fixed interest rate (CPIF) is to be 2 per cent.

The Riksbank's monetary policy is aimed at attaining the inflation target and, at the same time, supporting the objectives of general economic policy, the aim of which is to achieve sustainable growth and high employment. This is achieved through the Riksbank, in addition to stabilising inflation around the inflation target, also endeavouring to stabilise production and employment around paths that are sustainable in the long term. The inflation target, however, takes precedence.

The Riksbank determines the level of its policy rate, the repo rate, to influence inflation and economic developments. In addition, after each monetary policy meeting, the Riksbank publishes its forecast for the repo rate, known as the 'repo rate path'. The repo rate and the repo rate path affect other interest rates in the economy and thereby economic activity and inflation. In addition, the Riksbank can employ complementary measures to influence interest rate formation. The most relevant measure in recent years has been the purchase of securities. In addition, the Riksbank has stood ready to intervene on the currency market in the event of the krona appreciating so rapidly that it would impede the task of stabilising inflation at around 2 per cent. One important purpose of complementary measures may be to signal that the Riksbank is doing what is necessary to ensure that inflation expectations are compatible with the inflation target in the long run.

### **A safe and efficient payment mechanism – financial stability**

In order for the Riksbank to fulfil its statutory objective to maintain price stability, financial markets must function well. The Sveriges Riksbank Act also states that the Riksbank shall promote a safe and efficient payment system.





The Riksbank can do this by helping to ensure in different ways that the financial system is stable and ensuring that payments can be made safely and efficiently. According to the Sveriges Riksbank Act, the Riksbank may provide a central payment system that banks and other agents can use to make payments. Additionally, the Riksbank is responsible for providing the country with banknotes and coins.

### *Safe and efficient cash provision*

The Riksbank has the exclusive right to issue banknotes and coins in Sweden and is responsible for the provision of cash. This means that the Riksbank supplies banknotes and coins, destroys banknotes and coins that can no longer be used and redeems banknotes that are no longer legal tender. The objectives are to ensure that banknotes and coins are of a high quality and that the Riksbank's provision of cash is safe and efficient. The general public and companies that handle cash must have great confidence in banknotes and coins and in cash provision. The Riksbank also follows developments on the payment markets and analyses the use of cash and alternative means of payment in the economy, in order to stand prepared to adapt its operations to changes in society if needed.

### *Secure and efficient financial transfers*

The Riksbank owns and runs the central payment system RIX, which makes it easier for the market participants to make mutual financial transfers without credit or liquidity risks. Most transactions in Swedish kronor that are not made internally within an individual bank are handled in the RIX system in some form. RIX is thereby of decisive importance to the efficient functioning of the Swedish financial system and the Riksbank has consequently set high targets for its availability and functionality.

RIX is also of great significance to the operational framework for the implementation of monetary policy. This is because the interest rates on the participants' accounts in the Riksbank are directly linked to the repo rate. These interest rates steer short-term interest rates on the financial markets. The Riksbank itself also carries out various operations via RIX, such as monetary policy operations of various types, and provides credits for extraordinary situations.

### *Preventive work and crisis management*

The sound functioning more generally of cash provision and the payment system is a condition for stability in the financial system. The Riksbank defines financial stability as meaning that the financial system can maintain its basic functions and also has resilience to disruptions that threaten these functions. It is important that both the Riksbank and the central banks of other countries, together with other relevant authorities, work to reduce the risk of financial crises and ensure their ability to manage serious shocks that could arise in the financial system.



The Riksbank endeavours to prevent threats to financial stability by regularly analysing developments in the financial system and in the economy in other respects, as well as informing of, and warning against, risks that are building up. The analysis focuses mainly on the four major banks in Sweden (Handelsbanken, Nordea, SEB and Swedbank) and on the markets and infrastructure that are important for their funding and risk management. The infrastructure systems included in the Riksbank's oversight are: The Riksbank's payment system RIX, Euroclear Sweden AB's settlement system for securities (the VPC system), Nasdaq Clearing AB's central counterparty system for financial derivatives, commodity derivatives and repos and Bankgirocentralen BGC AB's payment system for clearing retail payments.

The Riksbank works preventively by calling attention, in public and in dialogue with financial system participants, to risks and events that may threaten financial stability, both in Sweden and internationally. In this context, the Riksbank makes recommendations, not only to banks and other participants in the financial markets but also to legislators and other authorities, with the aim of getting them to understand and rectify the risks identified.

The Riksbank is in a position to influence the framing of laws and regulations that relate to supervision and crisis management, both by responding to consultation documents and by actively participating in the work of a number of international organisations.

Several authorities in Sweden are responsible for promoting financial stability. Cooperation between the authorities takes place within the Financial Stability Council and elsewhere. The Council is a forum for discussion and not a decision-making body. This means that the authorities represented can communicate their opinions on what they consider should be addressed, but decisions on which measures should be adopted are taken independently by the authorities within their respective area of responsibility. If a financial crisis occurs, the Riksbank, Finansinspektionen, the Ministry of Finance and the Swedish National Debt Office share the responsibility for dealing with the crisis so as to minimise the economic costs.

The Riksbank can help manage a financial crisis in different ways: by supplying liquidity to the financial system, by support for an individual bank in the form of lending against collateral, by communicating the Riksbank's assessments, and by cooperating with other authorities and organisations in Sweden and abroad.

### **The Riksbank's independence**

The Riksbank is a public authority under the Riksdag. The Riksdag appoints the members of the Riksbank's General Council, and the General Council, in turn, appoints the members of the Riksbank's Executive Board. The General Council also supervises and scrutinises the work of the Executive Board.

The Executive Board of the Riksbank takes monetary policy decisions without seeking or taking instruction from any other party. By delegating the



task of maintaining price stability to the Riksbank, the Riksdag has ensured that monetary policy is based on a long-term perspective and created the conditions for the credibility of the inflation target.

The Riksbank's independent status is also reflected in its financial independence, guaranteed, among other things, through the Riksbank having sufficient equity and the right to manage financial assets. The aim of asset management is to ensure that it can fulfil its statutory objective and perform its tasks, for example by implementing monetary policy, being prepared to intervene in the foreign exchange market and being able to provide temporary liquidity assistance to banks. Therefore, the asset composition must be such that it ensures preparedness to perform the tasks at all times.

## Openness and communication

The Riksbank attaches great importance to being open and clear about its activities. A wide range of external parties must be able to understand what the Riksbank does and why. By being open and clear about what forms the basis for the monetary policy decisions, the Riksbank increases confidence in the inflation target. Openness also creates confidence in how the Riksbank assesses and handles the situation on the financial markets. The Riksbank's explanations of its assessments also help market participants to form an understanding of economic developments and the risks in the financial system.

At the same time, the independent status of the Riksbank places great demands on communications and the transparency of the Riksbank's activities so that these can be examined and evaluated by the general public and the Riksdag. The Riksbank's analysis work is normally presented in the form of reports. All the Riksbank's publications are available in full text on its website ([www.riksbank.se](http://www.riksbank.se)). The majority of them are published in both Swedish and English. The Riksbank also publishes press releases, speeches and articles, as well as minutes from the meetings of the Executive Board and the General Council on its website. Moreover, the models that the Riksbank uses in its analysis work are also public.

### *The Riksbank Committee*

On 22 December 2016, the Government decided to appoint a cross-party parliamentary committee with the task of performing a review of the monetary policy framework and the Sveriges Riksbank Act. This committee has adopted the name 'the Riksbank Committee'. Among others, the report covers questions of monetary policy objectives and means, the Riksbank's role in work on financial stability, the Riksbank's role on the cash market and the governance of the Riksbank. On 12 October 2017, the Riksbank Committee was also commissioned to investigate the Riksbank's financial independence and balance sheet. On 11 June 2018, the Committee submitted its interim report to the Government, 'Guaranteed access to cash' (SOU 2018:42). During the year, the



Riksbank has participated in the inquiry with one advisor and one expert. Also, the Riksbank submitted its consultation response to the interim report ‘Guaranteed access to cash’.

## Organisation and management

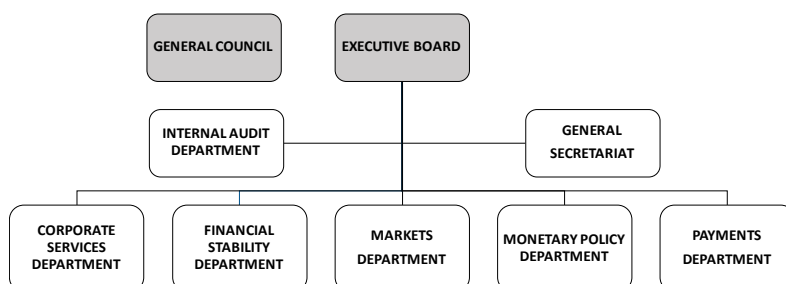
*The Riksbank continues to develop its organisation and management on an ongoing basis with the aim of achieving its vision to be among the best in comparison with similar organisations. During the year, the operations proceeded on the basis of the strategic plan 'A 350-year-old at the forefront' which started to apply in 2015.*

### Management and organisation

The Riksbank is led by an Executive Board appointed by the General Council of the Riksbank. The Executive Board is responsible for the Bank's operations, while the General Council appoints the members of the Executive Board and adopts the Riksbank's Rules of Procedure.

In 2018, the Riksbank consisted of seven departments (see Figure 1 and Annex 1). A Management Group consisting of the heads of all departments, with the exception of the Internal Audit Department, has the task of coordinating and following up activities. The head of the Communications Division is also a part of the Management Group, which is chaired by the head of the General Secretariat.

**Figure 1 The Riksbank's organisational structure in 2018**



### General Council of the Riksbank

The General Council consists of eleven members and as many deputies. Members and deputies are appointed by the Riksdag after each general election, for a term of office of four years. Following the 2018 election, the Riksdag appointed a new General Council. The General Council selects a Chairperson and a Vice Chairperson from among its members.



## The General Council's tasks

Apart from appointing the members of the Riksbank's Executive Board and determining their salaries and other terms of appointment, the General Council adopts the Riksbank's Rules of Procedure, which specify the Riksbank's overall organisation and regulation of certain managerial and decision-making matters. The General Council also determines the design of banknotes and coins.

Furthermore, the General Council submits proposals to the Riksdag concerning the allocation of the Riksbank's profits and makes a recommendation to the Riksdag with regard to the discharge from liability of the members of the Executive Board.

According to the preparatory works for amendments to the Sveriges Riksbank Act (1988:1385), the General Council also has the task of monitoring and controlling how the Riksbank conducts its activities and how the members of the Executive Board manage its business. The Chairperson and Vice Chairperson may attend and speak at the Executive Board's meetings, but they do not have the right to vote or make proposals. The General Council also has an audit function whose work is carried out by external consultants.

The General Council submits consultation responses within its field of competence and the Executive Board consults with the General Council on reports and formal communications with proposals to the Riksdag and the Government regarding government amendments to statutes or other central government measures.

The Chairperson and Vice Chairperson submit, usually twice a year, a report on the General Council's work to the Riksdag Committee on Finance.

In 2018, the General Council held ten meetings.

An account of the General Council's activities is presented in the General Council's submission to the Riksdag 2018/19:RB2 The General Council of the Riksbank's proposal for the allocation of profit 2018 and so forth.

## The Executive Board of the Riksbank

The Executive Board of the Riksbank consists of six members with terms of office of five or six years. The General Council appoints the Chairman of the Executive Board, who shall, at the same time, be Governor of the Riksbank, and at least one Vice Chairman, who shall, at the same time, be First Deputy Governor of the Riksbank.

### The Executive Board's tasks

The Executive Board has a joint responsibility for the focus, development and efficiency of the operations, and determines the instructions for the Riksbank. The Executive Board takes decisions regarding monetary and exchange-rate policy, important issues in the area of financial stability, payment issues and



the Riksbank's asset management. The Executive Board also decides on strategic objectives, business plan and budget. The Governor of the Riksbank has a mandate to follow up activities in relation to adopted plans and approved budget. The Governor of the Riksbank also has managerial responsibility for the heads of department.

The Executive Board makes decisions jointly at its meetings. The Board held a total of 22 meetings during 2018, six of which were monetary policy meetings. In addition, the Executive Board took two decisions by circulation.

At least twice a year, the Executive Board is required to present a written report on monetary policy to the Riksdag Committee on Finance. In 2018, members of the Executive Board participated at the Riksdag in two open hearings on monetary policy, one open hearing on financial stability, one open hearing on the Riksbank's future banknote production, and one open hearing on the Riksbank's report to the Riksdag: Account of monetary policy 2017.

## **Members of the Executive Board**

In 2018, the Executive Board consisted of the following members:

### *Stefan Ingves*

Stefan Ingves is Governor of the Riksbank and Chairman of the Executive Board. He took up the post on 1 January 2006 for a term of office of six years and received a further term of office to lead the Executive Board of the Riksbank for another six years from 1 January 2012. On 29 September 2017, the General Council decided to extend Stefan Ingves' term of office by a further five years as of 1 January 2018. Mr Ingves is a member of the General Council of the European Central Bank (ECB) and a member of the Board of Directors of the Bank for International Settlements (BIS), as well as Sweden's representative on the Board of Governors of the International Monetary Fund (IMF). He is also Chairman of the Basel Committee on Banking Supervision (BCBS) and, in that capacity, member of the Financial Stability Board (FSB). Furthermore, he is a member of the European Systemic Risk Board (ESRB) and a member of the Financial Stability Council. In June 2018 Stefan Ingves was appointed chairman of the board of Toronto Center.

### *Kerstin af Jochnick*

Kerstin af Jochnick is First Deputy Governor of the Riksbank. She took up the post on 1 January 2012 for a term of office of six years. On 29 September 2017, the General Council decided to extend Kerstin af Jochnick's term of office by a further six years as of 1 January 2018. She is the Riksbank's member of the Basel Committee (BCBS) and member of the Advisory Technical Committee (ATC) of the European Systemic Risk Board (ESRB). af Jochnick is also co-chair of the working group for Pillar II under BCBS. She is also the



Governor of the Riksbank's alternate on the ECB General Council and chairs the Cash Handling Advisory Board.

### *Martin Flodén*

Martin Flodén is Deputy Governor of the Riksbank. He took up the post on 22 May 2013 for a term of office of five years. In 2018 his term of office was extended by another six years as of 22 May 2018. He represents the Riksbank in the OECD's Working Party 3 (WP3) and in the Bellagio Group.

### *Per Jansson*

Per Jansson is Deputy Governor of the Riksbank. He took up the post on 1 January 2012 for a term of office of five years and, in 2016, received an extended term of office for another five years as of 1 January 2017. He represents the Riksbank on the EU Economic and Financial Committee (EFC), in the IMF cooperation between Sweden, the Netherlands, Belgium and Switzerland (G4) and on the Nordic-Baltic Monetary and Financial Committee (NBMFC). He is also a deputy on the International Monetary and Financial Committee (IMFC).

### *Henry Ohlsson*

Henry Ohlsson is Deputy Governor of the Riksbank. He took up the post on 12 January 2015 for a term of office of six years. He represents the Riksbank on the International Relations Committee (IRC) of the ECB, and on the Regional Consultative Group (RCG) of the FSB.

### *Cecilia Skingsley*

Cecilia Skingsley is Deputy Governor of the Riksbank. She took up the post on 22 May 2013 for a term of office of six years. She represents the Riksbank on the Committee on the Global Financial System (CGFS) and on the Euro Retail Payments Board (ERPB). She is the Governor of the Riksbank's alternate on the Board of Directors of the BIS and chairs the retail payments council. She is also co-chair of the World Economic Forum's working group Global Future Council on the Future of Financial and Monetary Systems.

## Employees

At the end of 2018, the Riksbank had a total of 362 employees (327 full-time equivalents), compared with 362 employees (317 full-time equivalents) in 2017. Developing leadership, co-workership, health and work environment have been in focus during the year.

The Riksbank has conducted small-scale employee surveys to gain regular feedback on the psychosocial work environment, thus providing good condi-



tions for employees and managers to take responsibility together for developing the work environment at both the divisional level and at a more overarching level. The overall work environment index has increased from 71 in 2017 to 74 in 2018. Positive changes have occurred in the areas recovery after intensive work periods, resource distribution and advancement opportunities for employees. The Riksbank's working methods, for example more efficient working procedures, are an area in need of further improvement. The sick leave rate remained low, at 1.7 per cent in 2018, compared with 1.2 per cent in 2017.

In 2018 the Riksbank introduced a leadership model that defines what is required from the Riksbank's managers in terms of competence, capabilities and behaviour for the organisation to fulfil its goals and its vision. In connection with introducing the leadership model, all managers performed an evaluation of their leadership, known as a 360-degree appraisal. The result generally indicated good leadership, which is in line with the definitions of the leadership model.

Leadership programmes are carried out annually for new managers. They provide managers with an opportunity to develop their skills as leaders in areas such as coaching approaches and feedback, team development, management by objectives, leading organisational change, and difficult conversations. Also, during the year, all managers have undergone the Riksbank's new e-learning course in the work environment. The theme for this year's management meeting was a new strategic plan for the Riksbank's operations during 2019–2022.

The Riksbank introduced a new HR and payroll system during the year. The new system involves modern procedures and contributes to more efficient work processes. The system was put into operation on 1 October 2018.

## Management of activities

The Riksbank's objectives, tasks and organisation are laid down in the Sveriges Riksbank Act, the Riksbank's Rules of Procedure and the Riksbank's Instructions. The work of the Riksbank is governed by a strategic plan, an annual business plan and internal regulations in the form of policies, rules and procedures.

The Riksbank's vision is to be among the best in terms of quality and efficiency in order to maintain a high level of public confidence. This means that our tasks are to be fulfilled to a high standard and for a reasonable cost and that the Riksbank must be among the best in comparison with other central banks and other comparable authorities, academic institutions and private companies.

The vision is given more concrete form in operational objectives and result indicators for the Riksbank's different target areas. Each target area has its own targets, intended to put the implications of the Riksbank's vision into con-



crete terms for each area. One or more result indicators are linked to each target, and these are intended to give a view of how well the Riksbank is living up to its ambitions.

Every four months, the Executive Board receives follow-up reports summarising the status of the indicators, the action plans, the budget and the operational and financial risks. Any measures or reprioritisation prompted by the results were discussed in conjunction with these follow-ups.

### **Activities developed on the basis of a strategic plan**

The Riksbank's operational plan is based on a strategic plan that summarises the task and the vision, and specifies a strategic direction for future operational plans. The strategic plan used as a guide for 2018 has the theme A 350-year old at the forefront. The plan was adopted in the autumn of 2014 and consists of three strategic objectives: that all areas of the Riksbank's operations are to be in line with the times and the rest of the world, that it is to have an inspiring working climate that contributes to setting the right priorities and effective work, and that it is to achieve results of high quality to earn a high level of public confidence. These strategic objectives are supported by ten strategic priorities which, in turn, have been given more concrete form with action plans in the annual operational plans.

The focus areas in the 2018 operational plan include structural transformation on the payment market, and devising a strategy for how the Riksbank is to work in the area of financial stability. The action plans have had good objective fulfilment overall, and operational follow-ups in recent years have shown that, in most areas, the Riksbank has lived up to the vision's level of ambition of being "among the best". It is, however, a challenge for a small central bank to defend this position and to contribute in the best possible way in a changing world. Changes to the financial system and the real economy are leading to new problems that need new solutions and this, in turn, places great demands on analysis and flexibility.

In December 2018, the Executive Board decided on a new strategic plan that will guide operational development during 2019–2022.

### *Confidence among the Riksbank's target groups*

To monitor the development of public confidence and the confidence of various target groups in the Riksbank, the Riksbank uses regular external surveys. Every year, Kantar Sifo measures the reputations of Swedish authorities, while MedieAkademin's confidence barometer, together with the SOM Institute, measures and compares confidence in a number of different institutions and organisations in Sweden. In 2018, these surveys showed that the general public continues to have high confidence in the Riksbank. In the confidence barometer's ranking of social institutions with the greatest confidence, the Riksbank is in fifth place. Kantar Sifo also regularly addresses a question to an Internet panel intended to represent the general public on how



much confidence it has in the Riksbank. In 2018, 56 per cent on average of respondents replied that they had very or fairly high confidence in the Riksbank's way of conducting its work. The corresponding figure for 2017 was also 56 per cent.

### *Communication*

Media reporting on the Riksbank increased slightly in scope in 2018, compared with the previous year. Reporting was focused on monetary policy. Additionally, the project for a new digital currency, an e-krona, was given increasing media space.

The Riksbank's monetary policy communication was characterised by the messages that inflation was now close to the target, but also that continued expansionary monetary policy was required for inflation to remain close to the target. An important feature of communication towards the end of the year was to prepare for an increase to the interest rate, a factor that was included in the Riksbank's forecasts. In addition, the Riksbank continued to highlight the risks inherent in households' high levels of indebtedness.

The Riksbank's 350th jubilee, with an open house in Stockholm and a jubilee tour visiting six Swedish cities, generated media attention, both locally and nationally. The events also reached many Riksbank followers in different social media channels.

The Riksbank's focus on increased presence and dialogue in social media continued in 2018. All channels in which the Riksbank has official accounts (Twitter, LinkedIn, Facebook and Youtube) showed increased activity in 2018 compared with 2017. For instance, on Twitter the Riksbank's own tweets increased by 80 per cent, with an 18 per cent increase in the number of followers in 2018 compared with 2017.

Also, in 2018 Kantar Sifo commenced continual measurement of factors such as the extent to which the Riksbank was discussed by others on social media, and increased engagement in the Riksbank as a discussion topic was seen here during the year.

#### *The Riksbank's 350th jubilee – in focus throughout the year*

In 1668, the Riksdag decided to establish Riksens Ständers Bank, which was renamed Sveriges Riksbank in 1867. The Riksbank is thus the oldest central bank in the world, and turned 350 years of age in 2018. The Riksbank marked the occasion with activities to spread knowledge about the Riksbank's role in the Swedish economy, and about important future issues. The Riksbank has fundamentally had the same task for 350 years. The jubilee activities have given the Riksbank an opportunity to talk about its task and operations through history, and link this to current issues. It has also been important to enable understanding the future challenges in store for the Riksbank. The objective of the jubilee activities was to help improve understanding of the Riksbank's



role of contributing to a strong and secure economy, and to further strengthen confidence in the Riksbank.

Ahead of the jubilee year, the Riksbank produced a booklet and a film about its history in cooperation with historian and writer Gunnar Wetterberg.

The Riksbank issued a jubilee book, *Sveriges Riksbank and the History of Central Banking*, which was written in cooperation with around twenty central bank experts and researchers from around the world.

Around the country, in six of the locations in which the Riksbank has had local offices (Luleå, Karlstad, Malmö, Sundsvall, Gothenburg and Linköping), the Riksbank arranged events for the general public. Members of the Executive Board each visited a location and held lectures on the theme “From copper coins to e-krona”. The Riksbank also served jubilee cake and the Executive Board members and experts answered questions and discussed with the general public.

During the year, the Riksbank displayed gold from the gold and foreign currency reserve for the first time. That too formed part of the jubilee activities and was an element in describing and explaining the Riksbank’s operations. The gold stand will remain in the Riksbank building even after the jubilee year has ended.

On 25 May the Riksbank, together with the Riksdag, arranged a jubilee conference on the theme “The role of central banks – in the past, present and future”. Speaker of the Riksdag Urban Ahlin, Chair of the General Council of the Riksbank Susanne Eberstein and Governor of the Riksbank Stefan Ingves hosted the event. Guests included representatives from the Riksdag, Government, authorities, other central banks, universities and industry. Among others, central bank governors from Finland, the UK, European Central Bank and the United States participated on stage. The conference was rounded off with a jubilee dinner in the Stockholm City Hall. Besides the conference participants and Riksbank employees, attendees of the dinner were the King and Queen of Sweden, the Minister of Finance and the governor of the German central bank.

On 22 September, on the actual anniversary – i.e. the date of the so-called banking order from 1668 – the Riksbank arranged an open house at its head office at Brunkebergstorg. The open house was yet another way to spread knowledge about the Riksbank’s role in the Swedish economy and about the important future issues within its field. Gunnar Wetterberg told the story of the Riksbank, and Executive Board members, the Chair of the General Council of the Riksbank, and experts tied it in with the present and future. Through the open house, the Riksbank wanted to enable discussions between Executive Board members and the general public, and between expert officials and the general public, as part of explaining the Bank’s operations. During the day, the general public could also take a guided tour of the Riksbank building. It was Riksbank employees who served as guides on the theme of art and architecture in the building. The level of interest from the general public was very high, with around 1,300 people taking the opportunity to visit the Riksbank.



During the year, the Communication Division carried out a number of activities on riksbank.se and in the Bank's social media channels. A historical timeline was added to the website, extending from the 17th century to the present day. The Riksbank also set up a Facebook page for the 350th jubilee.

By reason of the jubilee, the Riksbank started a new seminar series, Open Forum, to stimulate discussions, dialogue and open debate regarding the Riksbank's role in society in future. This got off the starting blocks already on 21 September 2017, and the discussion then was about the role of an independent central bank in the current economic policy climate. During the jubilee year, the Riksbank arranged two open forums. The first was about the role and importance of the inflation target. The second was about future payments.

In accordance with the Executive Board's decision on the focus of the jubilee, the Riksbank, in cooperation with the General Council, also produced a folder with a jubilee design, containing a 20-krona banknote, which was used as a gift during the jubilee year.

Furthermore, activities were carried out in cooperation with others. For example, the Tumba Papermill Museum produced an exhibition of the Riksbank's 350 years, and during the year Postnord issued two jubilee stamps in the denominations 10 and 20 kronor.

Employees and retired employees of the Riksbank celebrated the 350<sup>th</sup> jubilee at an event held in the Riksbank building on 21 September, at which Stefan Ingves and Gunnar Wetterberg held speeches, and the Riksbank served coffee and cake.

## Internal control

Pursuant to the provisions of the Sveriges Riksbank Act, the Executive Board presents its assessment of the adequacy of internal control in the Annual Report. See also page 107.

The Executive Board is ultimately responsible for internal control and establishes overall policies and certain rules that govern the Riksbank's activities.

The internal control is then evaluated on the basis of the components governance and control environment, risk analysis, control mechanisms, information and communication and follow-up and evaluation.

Under the internal control framework, the Internal Audit Department also carries out examinations of selected areas of the operations.

There are different types of risk in the Riksbank's activities. Financial risks are about market risk, credit risk and liquidity risk. Operational risks may damage the activities, assets or reputation of the Riksbank and arise as a result of human error or shortcomings in manning, internal processes or IT systems, or are due to external events. Risks of this type are to be found throughout the Riksbank's operations, both in the course of day-to-day work and in connection with changes. The risks are managed in a special risk process. The Risk Division of the General Secretariat reports its independent assessment of the

Riksbank's financial and operational risks to the Executive Board three times a year. The operations' annual risk analyses and incident reports indicate that the risk level for the Bank as a whole was satisfactory and did not change significantly in 2018.

Work on information and cyber security is an important and prioritised area. During the year, a Chief Information Security Officer has been appointed, and work on introducing an information security management system is in progress. The Chief Information Security Officer reports continually to the Executive Board. In December the Riksbank signed an agreement with IT provider CGI Sverige AB, which hence takes over responsibility for operating the Riksbank's IT systems from Evry. An important requirement in the operation of the Riksbank's systems is to strengthen protection against increasing cyber threats.

A deterioration in the state of international security policy has placed greater demands on the Riksbank, like other authorities, in terms of heightened contingency planning for conducting operations in highly strained conditions. In 2018, an internal project has therefore been carried out with a view to mapping the Riksbank's essential operations that must ultimately be able to function in a war situation.

## Environmental work and sustainable development

Sustainable development can be understood to be developments in society that meet today's needs without compromising the possibilities of future generations to meet their needs, and in which consideration is given to economic, ecological and social aspects. The Riksbank already pursued active environmental work. The work is an integral part of operations and is part of every manager's responsibility.

The Riksbank strives to work preventively and seek to reduce the Bank's environmental impact. The measures used by the Riksbank in its environmental work and their outcomes are presented in Table 1.

**Table 1 Measures used to monitor environmentally sustainable development**

Measure	2016	2017	2018
Carbon dioxide emissions from official travel (tonnes), total per employee	1.59	1.51	1.61
Energy usage, total (MWh)	5,883	5,689	5,975
Energy usage, total per employee (MWh per square metre)	17.5 (0.23)	17.6 (0.22)	18.6 (0.23)

Note: 'Employee' refers here to the average number of full-time employees.

Source: The Riksbank

During the year, work on sustainability issues has been broadened. In order to increase awareness and raise the knowledge level, in the autumn the Riksbank



commenced a series of seminars for employees, highlighting different aspects of sustainability and climate change. On 5 November, the Executive Board made a decision on a new financial risk and investment policy. The new policy sets forth among other things that consideration shall also be given to sustainability in the choice of assets in the foreign currency reserve, besides other requirements imposed by the Riksbank's task.

Since December 2018, the Riksbank has been member of an international network of central banks and supervisory authorities for analysing sustainability-related issues in the financial system – The Network for Greening the Financial System. An Economic Commentary with the title “Is climate change relevant for central banks?” was published in the autumn.

## Maintaining the value of money – price stability

*Economic development in Sweden remained positive in 2018. GDP growth was 2.2 per cent according to the Riksbank's assessment in December. As in 2017, inflation was close to the target. Measured in terms of CPIF, inflation was 2.1 per cent. A great deal of the price increase rate was explained by increasing energy prices. Inflation measured in terms of CPIF excluding energy was lower, amounting to 1.5 per cent. The expansionary stance of monetary policy continued during the year, with a negative repo rate combined with extensive government bond holdings. For some time, the Riksbank had been communicating that the time of an increase to the repo rate was approaching. In light of the fact that inflation outlook was largely unchanged compared with previously, the first increase to the repo rate since 2011 was therefore carried out in December. At the same time, the Riksbank's forecast indicated that continuing interest-rate increases would be made in cautious steps.*

### Monetary policy

The Executive Board of the Riksbank normally holds six monetary policy meetings per year, at which it decides on the repo rate and other monetary policy measures. In conjunction with these meetings, a Monetary Policy Report is published, which includes forecasts for the repo rate, inflation and other economic variables. Below is a summary of the Riksbank's monetary policy in 2018.

Sweden is a small, open economy and is greatly affected by developments abroad. In 2018, economic activity abroad remained relatively good, although GDP growth slowed down somewhat compared to previous years (see Chart 1). A number of uncertainty factors affected developments, the main one being the trade conflict between the United States and China. A risk that was discussed in the Executive Board was whether the conflict might be escalated and involve more countries and regions, or have a negative impact on the confidence of households and corporations, which could curb growth abroad in the coming years. The trend of low rates of increase in wages and prices abroad continued in 2018, despite relatively strong growth in the real economy. While energy prices indeed pushed up inflation abroad over the year, this was mainly expected to be a temporary effect.

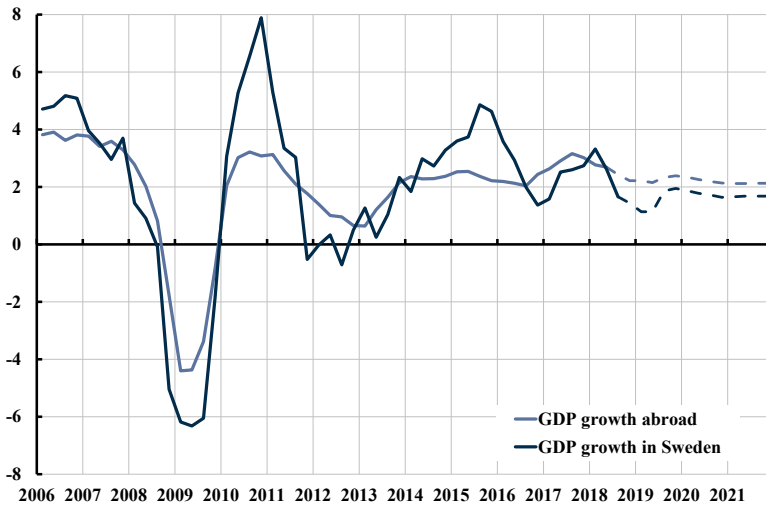
Monetary policy abroad remained markedly expansionary, albeit with great disparities between different regions. In the United States the Federal Reserve had come fairly far with its rate increases and started to reduce its holdings in financial assets, while the European Central Bank continued to extend its asset holdings during the year, signalling in its communication that an initial increase to the policy rate could not occur until after the summer of 2019.





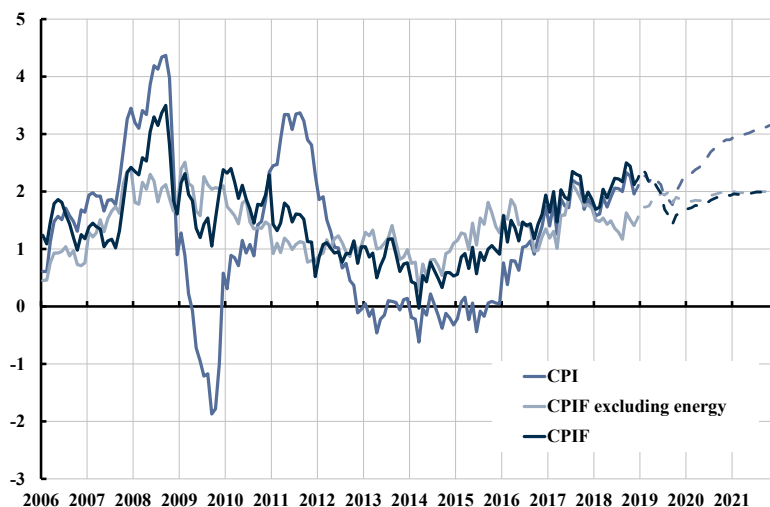
The Swedish economy continued to develop relatively strongly during the year, even though economic activity entered a maturer phase. According to the Riksbank’s forecasts, growth would however be curbed in the coming years (see Chart 1). Unemployment was expected to have bottomed out during the year, to subsequently grow weakly. Measured using CPIF, inflation had been close to the Riksbank’s target for some time (see Chart 2). The fact that this continued in 2018 was largely due to energy prices rising sharply, which was due in turn to rising oil prices globally and rapid electricity price increases in Sweden after the dry summer (see Chart 2). The strength of the underlying inflationary pressure in Sweden remained uncertain. Amongst other factors, prices of services, which are highly affected by domestic economic activity, increased slowly during the year. The weak development in wages in relation to economic activity was an issue high on the monetary policy discussion agenda in 2018 too.

**Chart 1 GDP growth in Sweden and abroad, annual percentage change**



Note: GDP abroad is aggregated with the weights in the krona index, KIX. The broken lines represent the Riksbank’s forecast from December 2018.

Sources: National sources, Statistics Sweden and the Riksbank.

**Chart 2 CPIF, CPIF excluding energy and CPI, annual percentage change**

Note: The CPIF is the CPI with a fixed interest rate. The broken lines represent the Riksbank's forecast from December 2018.

Sources: Statistics Sweden and the Riksbank.

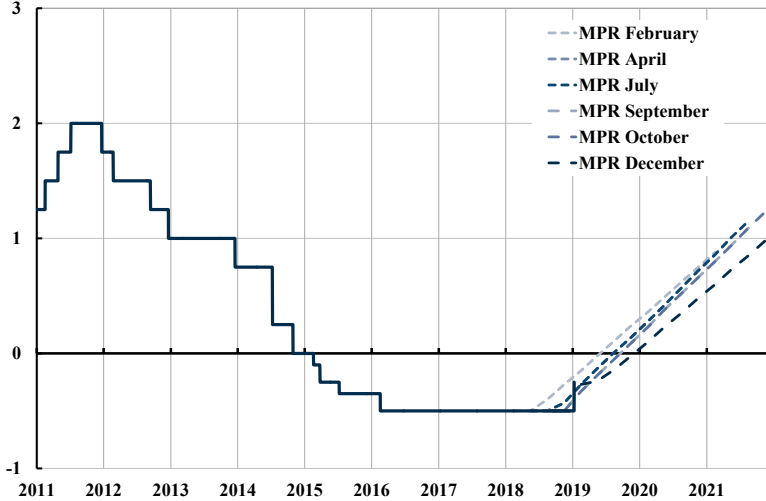
Ever since April 2017, the Riksbank's forecasts had indicated that the first repo rate increase since 2011 would occur in the second half of 2018. Indications of this included the fact that inflation expectations, according to surveys, had been close to the target for some time, and that inflation in Sweden measured in terms of CPIF was expected to remain close to the target according to the Riksbank's forecast. However, due to uncertainty relating to underlying wage and price pressure, the timing of the anticipated initial increase was postponed slightly during the course of the year (see Chart 3). In April, the repo rate forecast was revised down slightly, such that the first increase was expected to occur at the end of the year. In September, the repo rate forecast was once again revised down slightly. According to the forecast, an initial repo rate increase was expected to occur either at the December meeting, or the meeting in February 2019. As the time of an initial rate increase was approaching, at the meeting in September the Executive Board wished to put its plans into concrete terms, and then announced that increases to the repo rate were expected to be made in steps of 0.25 percentage points. At the monetary policy meeting in October, the forecast was maintained of an initial repo rate increase being expected either at the December meeting or at the meeting in February 2019. Since inflation outlook was largely unchanged from before, in December the Executive Board found it appropriate to increase the repo rate by 0.25 percentage points to -0.25 per cent. At the same time, the forecast indicated that further repo rate increases were expected to occur slowly.

The Riksbank's Executive Board made no decisions on new government bond purchases during the year, but maturities and coupon payments from the government bond portfolio were reinvested until further notice (see Chart 4).



In December 2017, the Executive Board had decided to bring forward the re-investment of the large maturities occurring in the spring of 2019. Reinvestment of these maturities commenced in January 2018 and will continue through the first half of 2019. Because of this, the Riksbank’s government bond holding increased in 2018 (see Chart 5).

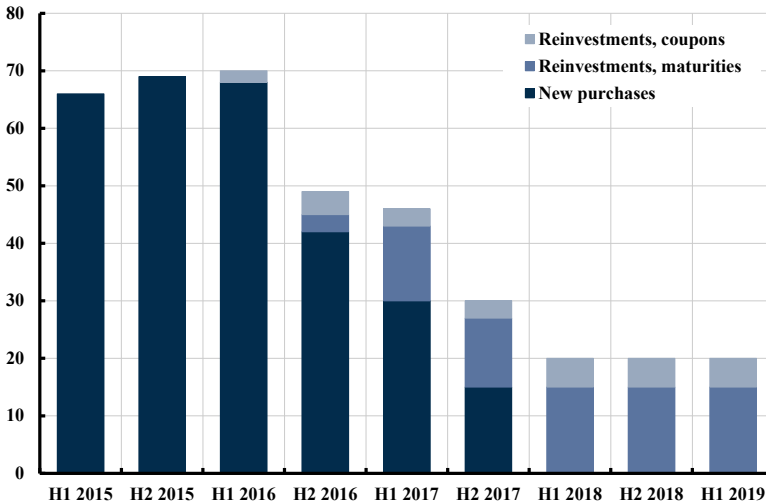
**Chart 3 Repo rate and repo rate forecasts 2018, per cent**



Note: The unbroken line represents outcome (daily data) and the broken lines represent the Riksbank’s forecasts (quarterly averages). The forecasts for April and July, and September and October, are identical.

Source: The Riksbank

**Chart 4 Purchases of government bonds**

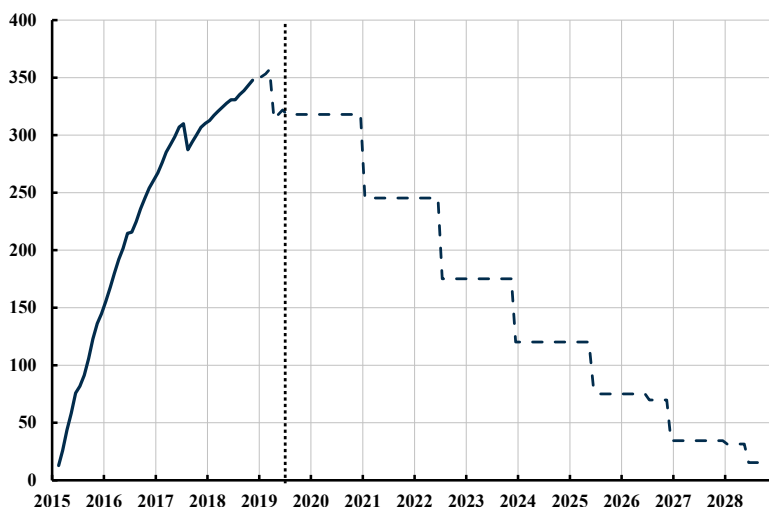


Note: Nominal amounts, SEK billion. The progression of reinvestment from 2019 is a forecast and refers to nominal amounts. The final amounts will depend on current market prices.

Source: The Riksbank



**Chart 5 The Riksbank's holdings of Swedish government bonds, SEK billion**



Note: Nominal amount. Forecast from the Monetary Policy Report, December 2018. Forecast until June 2019, then subsequently a technical projection under the assumption that no further reinvestments are made. The progression of the holding is also affected to some extent by the market prices of the bonds, and the bonds in which the Riksbank chooses to reinvest. The vertical line denotes the shift between forecast and technical projection.

Source: The Riksbank

### *Monetary policy decisions and reservations 2018*

- 13 February      The repo rate was held unchanged at  $-0.50$  per cent. The repo rate forecast was also held unchanged and indicated that slow increases to the repo rate would be introduced in the second half of 2018. Henry Ohlsson entered a reservation against the decision to hold the repo rate unchanged and against the repo rate path in the Monetary Policy Report. He advocated increasing the repo rate to  $-0.25$  per cent, referring to the strong economic developments in Sweden and internationally.
- 25 April          The repo rate was held unchanged at  $-0.50$  per cent. The forecast for the repo rate was revised down, and now indicated that slow increases to the repo rate would not be introduced until the end of the year. Henry Ohlsson entered a reservation against the decision to hold the repo rate unchanged and against the repo rate path in the Monetary Policy Report. He advocated increasing the repo rate to  $-0.25$  per cent, referring to the strong economic developments in Sweden and internationally.
- 2 July            The repo rate was held unchanged at  $-0.50$  per cent. The forecast for the repo rate was also held unchanged. Martin Flodén entered a reservation against the repo rate path in the Monetary Policy Report. He advocated a repo rate path that



indicated an initial increase to the repo rate of 0.25 percentage points in September or October 2018, but which coincided with the repo rate path of the report as of the third quarter of 2019. Henry Ohlsson entered a reservation against the decision to hold the repo rate unchanged and against the repo rate path in the Monetary Policy Report. He advocated increasing the repo rate to  $-0.25$  per cent, referring to the strong economic developments in Sweden and internationally.

At the monetary policy meeting it was also decided to extend the mandate for foreign exchange interventions until 12 February 2019. Martin Flodén and Henry Ohlsson entered reservations against this decision. Flodén stated the same justification as in prior decisions regarding the mandate in 2016 and 2017, which is to say that currency interventions are not a suitable tool, under the prevailing circumstances, for making monetary policy more expansionary, should a need for further stimulation measures arise. Ohlsson found that in a situation with inflation and inflation expectations close to the target, potential interventions on the foreign exchange market could be managed without a special mandate.

5 September

The repo rate was held unchanged at  $-0.50$  per cent. The forecast for the repo rate was revised down slightly, now indicating that the rate would be held unchanged also at the monetary policy meeting in October, and subsequently be increased by 0.25 percentage points, either in December or in February 2019. Martin Flodén entered a reservation against the repo rate path in the Monetary Policy Report. He advocated a repo rate path that indicated that it was probable that the repo rate would be increased by 0.25 percentage points at the monetary policy meeting in October, but which coincided with the repo rate path of the report as of the third quarter of 2019. In his view, communicating such a repo rate path would bring about sufficient tightening of monetary policy. Henry Ohlsson entered a reservation against the decision to hold the repo rate unchanged and against the repo rate path in the Monetary Policy Report. He advocated increasing the repo rate to  $-0.25$  per cent, referring to the strong economic developments in Sweden and internationally.

23 October

The repo rate was held unchanged at  $-0.50$  per cent. The forecast for the repo rate was also held unchanged. Martin Flodén and Henry Ohlsson entered reservations against the decision to hold the repo rate unchanged, and advocated an increase to the repo rate to  $-0.25$  per cent. Flodén referred to the upturn in inflation and the strengthened confidence in the



	<p>inflation target, and advocated a repo rate path that coincided with the repo rate path of the report as of the third quarter of 2019. Ohlsson referred to the strong economic development in Sweden and internationally, and advocated bringing forward the repo rate path with the same slope as the repo rate path in the Monetary Policy Report.</p>
19 December	<p>The repo rate was increased to <math>-0.25</math> per cent. The repo rate forecast was revised down and indicated that the next increase to the repo rate would probably occur in the second half of 2019. Thereafter, the forecast indicated around two increases per year of 0.25 percentage points each time. Per Jansson entered a reservation against the decision to increase the repo rate and did not support the repo rate path in the Monetary Policy Report. He referred to the sustained high uncertainty about the strength of the longer-term inflation rate, and in light thereof he saw no need to increase the repo rate in December, but rather thought it better to await further information and proceed cautiously with an unchanged interest rate for some time yet.</p>

## Target fulfilment

The Riksbank's monetary policy is evaluated by the Riksdag Committee on Finance. For this evaluation, the Riksbank compiles the report Account of Monetary Policy, which is published in the month of March following the year evaluated. Among other things, the Account of Monetary Policy describes how inflation and the real economy have developed over the past year. The report for 2018 will be submitted to the Riksdag in March 2019.

The Riksbank strives to stabilise inflation around the inflation target, but also tries to stabilise production and employment around paths that are sustainable in the long term. The Riksbank thus conducts what is referred to as flexible inflation targeting. A precondition for taking factors other than inflation into account is that confidence in the inflation target is maintained.

In the assessment of monetary policy's target fulfilment, consideration should be taken not only of how inflation has developed, but also of developments in the real economy. However, both inflation and the real economy are constantly impacted by unexpected shocks, meaning that deviations from the inflation target are the rule rather than the exception.

### Inflation in 2018

As in 2017, CPIF inflation was close to the target on average, amounting to 2.1 per cent. Rapidly rising energy prices explained a great deal of the inflation. One reason for the rise in energy prices was the unusually hot and dry



summer, which sharply pushed up energy prices in Sweden. The effect on inflation was however expected to be temporary. Measured in terms of CPIF excluding energy, inflation was much lower, amounting to 1.5 per cent (see Chart 2 and Table 2). The good economic activity was expected to cause CPIF inflation to be around 2 per cent, even once the effects of rising energy prices subsided. Measured using CPI, inflation was 2.0 per cent, which was a slight increase on 2017. Inflation expectations remained steadily anchored around the target during the year, also on shorter horizons (see Chart 6).

**Table 2 Comparison of different measures of inflation, annual percentage change**

	Annual average		
	2016	2017	2018
CPIF	1.4	2.0	2.1
CPIF excluding energy	1.4	1.7	1.5
CPI	1.0	1.8	2.0

Note: The CPIF is the CPI with a fixed interest rate.

Sources: Statistics Sweden and the Riksbank.

**Chart 6 Inflation expectations among money market participants, per cent**



Source: TNS Sifo Prospera.

### The development of the real economy in 2018

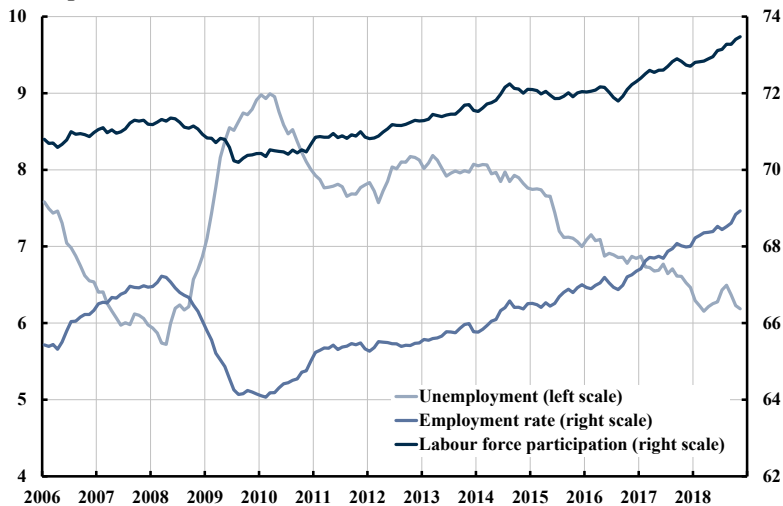
The Swedish economy continued to develop relatively strongly in 2018. Developments on the labour market were particularly good, illustrated by, for instance, a continuing rise in the employment rate (see Chart 7). Unemployment amounted on average to 6.3 per cent in 2018, which was a decline from 2017. However, there were signs of economic activity having entered a maturer phase and that somewhat lower growth was to be expected in coming



years. Growth on Sweden's most important export markets slowed down in 2018, and was expected to continue to gradually subside ahead. Also, the development of Swedish house prices had slowed down from the autumn of 2017, leading to reduced interest in producing new homes, and a slowdown in housing investments. GDP growth was therefore expected to drop in 2018 and 2019.

To gauge the state of economic activity, the Riksbank uses different measures of resource utilisation, for example the GDP gap, the hours gap and the employment gap. These measure the deviation from the respective estimated trends of GDP, hours worked and employment. The overall view given by the measures is that resource utilisation was higher than normal in 2018 (see Chart 8). Resource utilisation was expected to decline somewhat in the next few years, but nonetheless remain higher than normal (see Chart 8).

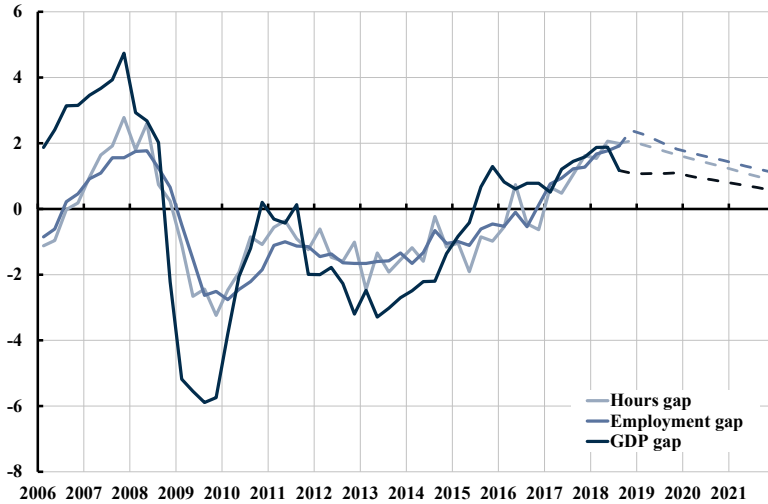
**Chart 7 Labour force participation, the employment rate and unemployment, per cent**



Note: Seasonally-adjusted data. Three-month moving average. This data refers to persons aged 15–74. The labour force participation rate and employment rate are measured as a percentage of the population. Unemployment is measured as a percentage of the labour force.

Source: Statistics Sweden.



**Chart 8 GDP gap, employment gap and hours gap, per cent**

Note: The gaps refer to the deviation in GDP, the number of hours worked and the number of those employed from the Riksbank's assessed trends. The broken lines represent the Riksbank's forecast from December 2018.

Sources: Statistics Sweden and the Riksbank.

### *The Riksbank's statistical operations in 2018*

Under the provisions of the Sveriges Riksbank Act, the Riksbank shall make public statistical data concerning foreign exchange and credit conditions on a continual basis. Statistics on the financial market, securities issues and the balance of payments are produced and published on behalf of the Riksbank by Statistics Sweden (SCB). The Riksbank is responsible for the quality, content and development of the statistics. When developing the financial statistics, the Riksbank works together with several international institutions, such as the European System of Central Banks (ESCB), Eurostat and the Bank for International Settlements (BIS).

The Riksbank itself compiles and publishes daily turnover statistics on the fixed-income and foreign exchange markets from the Riksbank's and Swedish National Debt Office's counterparties. In addition, interest rates and exchange rates are published on the Riksbank's website on a daily basis.

Three times a year, the Riksbank publishes a report based on interviews with 40–45 companies to gain a rapid and up-to-date view of developments for non-financial corporations.

### **In-depth analysis of the effects of digitalisation**

In the spring, the Riksbank conducted, in cooperation with 16 other central banks, a special study of the effects of digitalisation for businesses. The interviews concerned aspects such as the use of digital technology by businesses, and how this affects production, selling price, employees, etc. Overall, businesses in Sweden consider that the new technology provides an opportunity to



strengthen customer relations, while at the same time it improves productivity. Furthermore, digitalisation is expected to lead to a shift in skills in the labour force, as businesses see a need to recruit more people with digital expertise. At an international conference arranged by the Riksbank, the findings of the joint study were presented and discussed.

### **Adaptation of financial statistics to new participants and needs**

In November, the Executive Board made a decision to amend the regulations governing the collection of the Riksbank's financial market statistics. The main purpose of the update is to enable commencing data collection from mortgage institutions, which have become an increasingly important participant in the mortgage market, but also for the statistics to be in line with current accounting standards and to fulfil ECB requirements. The new regulations also reduce the burden of reporting for financial firms in that collection of the new data regarding non-financial corporations' credits (KRITA) and securities holdings (VINN) commenced in 2018, and this will partially replace the reporting in the financial market statistics. Furthermore, in line with the dialogue report published in 2017, the Riksbank continued to investigate possibilities of collecting new, detailed data about households' assets and debts. Over the year, the Riksbank has for example looked into the legal conditions for collecting the data and coordinated the needs for this data with other authorities, such as in the Financial Stability Council in December 2018.

### **Development of the Riksbank's provision of information**

Well-functioning information provision is fundamental to making the right information available to the right user, at the right time with the right quality, and in an effective way. Supported by the Riksbank's statistics and information provision committee, during the year the Statistics Division developed a strategy and policy for the Riksbank's provision of information. The policy, which was adopted by the Executive Board in April, determines that information is a valuable asset for the Riksbank and that it shall be managed accordingly. The requirements are clarified to the organisation and create a form of governance entailing that knowledge, accessibility, quality, security and responsibility for the information are ensured throughout its lifecycle. Through the policy, a new position at the Riksbank was also established with responsibility for coordinating information provision.

## **Monetary policy development work**

Over the year, the Riksbank continued its work to develop the monetary policy analysis. A matter that the Riksbank continued to analyse was the relationship between developments on the labour market, and wage and price growth. Since the Riksbank's forecasts indicated that an increase to the repo rate was approaching, the potential implications for the economy of an increased repo



rate were also analysed. Another issue, which the Riksbank has come back to several times, is the assessment of the development of the krona and its effects on inflation. The work of deepening the inflation analysis continued over the year. A matter that was particularly analysed was different measures of underlying inflation, in light of the fact that energy prices have been of great significance to the progression of inflation in the last few years.

### **In-depth analysis of the link between the labour market and wage and price growth**

Despite a decrease in unemployment and an increase in resource utilisation, the rate of increase of wages and prices has been subdued in recent years – both internationally and in Sweden. In 2016 and 2017, the Riksbank had analysed perceivable reasons for this development, but the work also continued in 2018. In an article in the Monetary Policy Report in July, the link between resource utilisation and inflation – known as the Philips curve – was analysed at an overarching level. It was noted, for example, that the Riksbank's forecasts continue to assume that wage growth is, with a certain lag, affected by resource utilisation, but with account taken of the link seemingly having weakened. It was also pointed out that inflation is affected by a number of factors besides the wage increase rate, including productivity growth, energy prices and the exchange rate. It is thus not possible to say in advance how monetary policy would be changed if wage increases were lower than forecast.

During the year, the Riksbank also analysed the reasons for the low wage increase rate in Sweden using microdata. The results were published in two Economic Commentaries. In the first commentary, it was analysed whether an altered composition of the labour force, towards a higher share of people born abroad and a higher share of people with post-secondary education, might have affected the wage increase rate in Sweden in the past ten years. A greater share of highly educated people in the labour force makes for a higher wage increase rate, while the opposite is the case for a higher share of people born abroad. The effects thus diverge, and it was determined that, on the whole, they roughly offset each other. The conclusion was that workforce composition as a whole has had little effect on the wage increase rate in Sweden in recent years. In the second Economic Commentary, the progression of the wage difference was analysed between people who had changed jobs, and people who had obtained jobs by entering the labour force or transitioning from unemployment. It emerged that wage growth is, as a rule, stronger for those who have changed jobs. It was also noted that this wage premium has not been smaller in the last few years in relation to that during previous economic booms in Sweden.



## **How would future rate increases affect the economy?**

An important question for the Riksbank to analyse during the year was how the economy would be affected by future repo rate increases. For some time, the Riksbank's forecasts had indicated that increases to the repo rate would be introduced in 2018.

In an article in the Monetary Policy Report in December, it was described how Swedish households' cash flows and consumption could be affected by rising interest rates. Because households' debts have increased, and their mortgages have largely been taken out at floating interest rates, the effects of monetary policy on households' consumption are greater than before. In the article, it was determined that households' heightened sensitivity to interest rates had become an increasingly important factor to consider in Swedish monetary policy. The Riksbank's repo rate path indicated however that the interest rate would be increased slowly, implying that the overall effects on households' cash flows would be limited. Therewith, it was also noted that the Riksbank's monetary policy considerations are ultimately guided by how the repo rate affects the entire macroeconomy and outlook for inflation. The article was an update on the Riksbank's more extensive analysis from a year earlier, which had been presented in the form of an article in the Monetary Policy Report in December 2017, and a staff memo that was published in connection with the same Monetary Policy Report.

An article in the Monetary Policy Report in October analysed the effects of repo rate hikes on financial variables. In the article, an overview was performed of prior episodes of repo rate increases in Sweden, with a focus on the effects on longer interest rates, exchange rate and households' mortgage rates. Differences between these episodes and the present situation in Sweden were also discussed, in light of today's historically unique baseline of a negative repo rate. It emerged for instance that the Riskbank's current forecast indicated that the repo rate would increase at a comparatively slow rate.

## **Analysis of the krona's impact on inflation and a new assessment of the krona's long-term level**

By reason of the relatively sharp weakening of the krona at the beginning of the year, the Riksbank published an analysis of the effects on inflation from changes in the krona exchange rate. The analysis was published in an article in the Monetary Policy Report in April. A clear result of the analysis was that the effects on inflation from a change in the krona exchange rate primarily depend on two factors: the reason for the change, and how enduring the change is expected to be.

If the krona weakens due to international market unease, inflation will probably be higher than what would otherwise have been the case, as the domestic cost pressure is unchanged while at the same time import prices tend to rise. If the cost pressure is lower than expected in Sweden, this could give rise to expectations about more expansionary Swedish monetary policy, which weakens



the krona exchange rate. In both of these cases, a weaker krona exchange rate contributes to higher inflation, but the overall effect on inflation can diverge. The more enduring a change in the krona is expected to be, the greater the probability too of corporations allowing changes in costs for imported goods to affect consumer prices, and the greater the effects will be on Swedish inflation. On the whole, these results entail that an assessment of the effects on inflation from a given change in the krona exchange rate carries great uncertainty.

The Riksbank's forecasts for the krona exchange rate are based on an assessment of the long-term level of the real krona exchange rate. The real krona exchange rate reflects the price level in Sweden in relation to abroad, measured in common currency, which is the same as the nominal exchange rate adjusted for the relationship between the price level in Sweden and abroad. In an article in the Monetary Policy Report in October, an updated assessment was published of the range for the long-term real trade-weighted krona exchange rate, measured using the krona index KIX. The assessment showed a weaker long-term real krona exchange rate than the assessment that had previously formed the basis for the Riksbank's forecasts and which was published in 2013.

### **Continued work on the analysis of inflation**

Over the year, the Riksbank continued its work on analysing inflation. One issue that has been in focus in recent years is the difference in the development of the Riksbank's target variable CPIF and different measures of underlying inflation, in light of the fact that energy prices have risen sharply. An article in the Monetary Policy Report in October discussed different measures of underlying inflation and the criteria which the measures must fulfil to be useful to a central bank. The measures can be devised either by stripping out certain prices in advance, such as for energy, or by using different statistical methods to systematically exclude or reduce the significance of prices that fluctuate sharply. The criteria that should be imposed on the measures include that they shall be able to predict the progression of the target variable, in the Riksbank's case CPIF, and that over a longer period of time, they shall have the same average rate of increase as the target variable.

The conclusion of the article was that, although certain measures are more useful than others, no individual measure can satisfactorily fulfil all criteria, which indicates that the Riksbank should use a broad set of measures of underlying inflation. An Economic Commentary, published just before the Monetary Policy Report in October, gave a more detailed description of different measures of underlying inflation and their role in monetary policy analysis.



### *The Riksbank's research in 2018*

The Riksbank's research is primarily focused on areas of direct significance to the Bank's activities. The aim of this research is to provide a better foundation for the Riksbank's policy decisions.

The Riksbank's research is published in international scientific journals but also in the Riksbank's Economic Review. The results are also communicated through presentations at other central banks and universities, as well as at international conferences.

Research is chiefly conducted in financial stability and monetary policy. Researchers who are specialised in financial stability study Swedish households and companies with the aim of understanding their economic behaviour. The researchers who focus on monetary policy and macroeconomics also help facilitate the understanding of a complex reality.

An example of this research is a paper that was published during the year in the *Journal of Monetary Economics* and which analyses why the investments of corporations are empirically explained by their cash flows rather than by the profitability of investments, measured using the share price of the corporation. The authors show theoretically how financial frictions for the corporations create this empirical pattern, and that the relationship between the share price and investments is weakened when a corporation's profitability is affected by both temporary and longer-term shocks. Another example of research conducted during the financial year is an article that studies macroeconomic effects of trade wars. The article showed that the negative macroeconomic effect of trade wars are manifest yet still limited if the tariffs do not affect global value chains and households' optimism.

Researchers from the Research Division also collaborate with other members of staff at the Riksbank with the aim of developing better material ahead of policy decisions. An example of this is an article in *Economic Review* which stressed the importance of good understanding of financial frictions in analyses of business cycles. Before the financial crisis, it was common for macro models to disregard financial frictions. However, this has changed in the past few years and the article contains a review of the latest research in the field. Also during the year, the Research Division participated in the work relating to the e-krona, in the form of discussions regarding potential implications for monetary policy and the macroeconomy, and in work on the report *E-krona and the macroeconomy*, which was published in the Riksbank's *Economic Review*.

In cooperation with Cambridge University Press, the Research Division prepared the jubilee book to mark the Riksbank's unbroken 350-year history. In each chapter, the historical development of twelve central banks is described, from inception to the present day. The selection of central banks includes the very oldest ones, the Riksbank and the Bank of England; the very youngest, China's central bank and the European Central Bank; and the influential Federal Reserve of the United States. Readers are given a coherent



presentation of each central bank, but can also identify common denominators in the central banks' development, as well as interesting distinctive features.

In order to increase our understanding of the challenges on the Swedish housing market, in September the Research Division, together with Stockholm University and the Federal Reserve Bank of Saint Louis, arranged the conference *Housing, credit and heterogeneity: New challenges for stabilisation policies*. Over two days, central bank economists and academic researchers discussed the interaction between the housing market, monetary policy and macroeconomic fluctuations. The recent global financial crisis and the subsequent weak recovery in the countries where house prices fell sharply have revealed important deficiencies in current models. New macroeconomic models and individual data have opened up exciting new paths for research.

In addition to this, the Riksbank's researchers also taught doctoral and master's students at Swedish universities over the year. These activities reflect the Riksbank's willingness to collaborate with academia and other central banks to exchange knowledge and to safeguard the future supply of competence.

## A safe and efficient payment system

*Use of electronic payment services increased in 2018, while cash usage decreased. While electronic payments are indeed secure and efficient, they can also lead to new vulnerabilities emerging. Over the year, the Riksbank continued to analyse the possibilities of issuing a digital complement to cash – the ‘e-krona’.*

*The financial system functioned well in 2018. However, the Riksbank deemed that households’ indebtedness still poses a major risk that could threaten macroeconomic and financial stability. The Riksbank continued to influence the financial regulatory framework in national and international forums. In addition, the Riksbank worked on deepening its analyses of important stability issues. The Riksbank finds that the financial infrastructure has functioned well overall, and that availability has mainly been good, but notes at the same time that disruptions did occur and that resilience needs to increase.*

### Safe and efficient payments

The Riksbank has been tasked by the Riksdag to promote a safe and efficient payment system. This means that the Riksbank shall seek to promote stability in the financial system and ensure that payments can be made safely and efficiently. In order to deliver on this task, the Riksbank supplies the country with banknotes and coins and provides a central payment system (RIX) in which participants – mainly banks – can, through accounts at the Riksbank, conduct transactions, either on customers’ or their own behalf. The accounts provided by the Riksbank are also used to implement monetary policy and, in crisis situations, to provide liquidity to stabilise markets and financial institutions. The Riksbank’s capacity to act as “the bank of banks” is thus essential both for fulfilling the price stability objective, and for promoting financial stability.

Safe, appropriate and cost-efficient payments are essential for the proper functioning of the Swedish economy. Swedish payment infrastructure shall be at least as safe and efficient as that in comparable countries abroad. Developments place demands on split-second payments between households and corporations. The Swedish payment market is evolving rapidly and the Riksbank is therefore evaluating how the Riksbank’s service offering needs to be adapted to ensure that the payment system is safe and efficient. For example, the Riksbank has consulted the market in matters pertaining to the Riksbank’s role in the payment infrastructure.





## Developments on the payment market

Developments on the Swedish payment market cannot be considered in isolation. The overall trend towards increasing electronic payments is global. The consumption patterns of consumers are changing, as are corporations' subcontractor chains. Cross-border payments are becoming increasingly common, and the national payment markets are becoming much more integrated. For Sweden, developments in the Nordic region and EU are the most important. The central banks have a key role in this work, and the Riksbank participates in the international cooperation and monitors and analyses developments.

On the Swedish market, usage of electronic payment services has shown an increasing trend, at the same time as the usage of paper-based direct debits and cash has decreased. In an international comparison, published by BIS, Sweden is one of the countries that has the lowest level of cash usage and highest number of card payments per person and year. The ever lower level of cash usage among the Swedish population is partly due to technological developments and the increased digitalisation in society as a whole, but there are also demographic drivers.

In the spring of 2018, the Riksbank conducted an interview survey which confirmed that these developments are continuing. A dwindling number of point-of-sale payments are in cash, and consumers also state that more often they find that they cannot use cash for in-store payments. At the same time, usage of cards and Swish is on the rise. Contactless cards and terminals have become commonplace.

The trend towards a cashless society could ultimately make society vulnerable in that the payment market would be concentrated among a small number of private participants, payment services and infrastructures. These matters are partly raised within the bounds of the review of the Riksbank's mandate and the forthcoming final report from the Defence Commission. The Riksbank also worked with these issues during the year as part of the retail payments council, in which an inquiry was conducted into the possibilities of making payments in the event of a disruption in the card infrastructure.

The developments on the payment market led to the Riksbank, in 2017, initiating a project to study whether it would be possible to issue a digital complement to cash, an 'e-krona', and whether such a complement could support the Riksbank in the task of promoting a safe and efficient payment system. This work continued in 2018.

### *The e-krona project*

In 2018 the Riksbank continued to analyse the possibility of issuing kronor in digital form – an 'e-krona'. The e-krona project has been in extensive dialogue with various national and international entities to gain their view of the e-krona concept, which was presented in the project's first interim report. Some important conclusions from the dialogue held with external entities was that technical solutions for an e-krona are already in place today, that security issues



should be prioritised, and that the e-krona should be broadly available. Besides these meetings, the project and Executive Board members also took part in a number of conferences in Sweden and abroad, both with the general public and with other public-sector entities to discuss questions regarding the e-krona.

In parallel, the project further developed the e-krona concept and prepared a new interim report, which was published at the end of October. The project suggests that concrete proposals for changes in legislation should be prepared in order for the Riksbank to have a clear mandate to choose the form in which e-krona will be issued in the future. The Executive Board decided, in connection with adopting the 2019 budget, that the Riksbank should take the next step in its e-krona-related work. This means the Riksbank commencing developmental work to devise a technical solution – an ‘e-krona pilot’. Both the legal review and pilot project aim to provide the Riksbank with greater flexibility so that it may issue e-krona in future should this prove desirable. At the same time, analysis of issues concerning central-bank-issued digital money will continue in more general terms within the Bank, as will further and intensified dialogue with the Riksdag and other authorities.

### *Retail payments council*

The retail payments council is a forum for dialogue and consultation concerning the Swedish market for payment services. Over the year, in its role as provider of a secretariat for the Swedish retail payments council, the Riksbank worked on coordinating the activities in the work programme of the council for the period 2017–2019. The council also published a report on challenges and opportunities in terms of conducting payments in connection with a disruption in the card payment infrastructure.

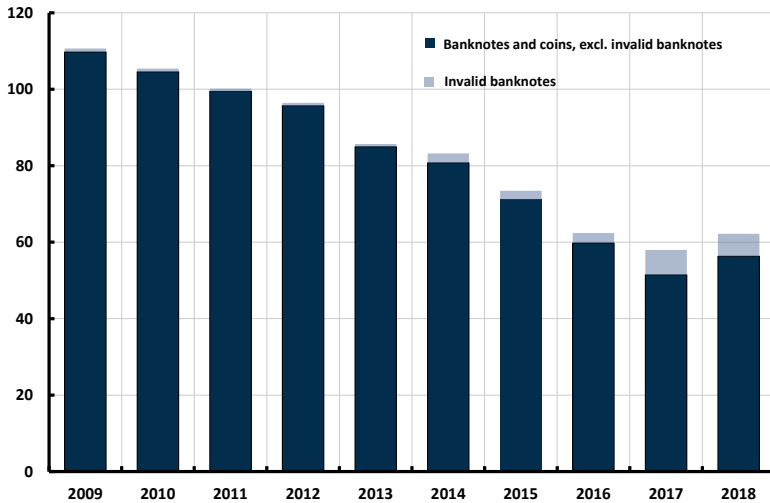
### **Cash provision**

In 2018, the Riksbank provided banknotes and coins to the banks and followed the value of cash in circulation. The Riksbank also completed its summary and evaluation of the banknote and coin changeover.

The volume of cash in circulation has been decreasing for many years, but increased in 2018. The volume of cash in circulation amounted to SEK 62 billion at the end of 2018, of which the value of banknotes amounted to SEK 59 billion and the value of coins amounted to SEK 3 billion (see Table 3). This is an increase of just over SEK 4 billion compared with the equivalent point in time in 2017. It is primarily 500-krona banknotes that have increased in 2018.



**Chart 9 Banknotes and coins in circulation at 31 December of each year, SEK billion**



Note: The value of invalid banknotes has been greater in recent years due to the banknote and coin changeover.

Source: The Riksbank

The value of the cash in circulation is governed by the demand for banknotes and coins, which varies over the course of a year. Another way of describing the amount of cash in circulation over a year is to calculate an average for the value on the final day of the month over the twelve months of the year. This average value amounted to SEK 58 billion in 2018, of which the value of banknotes amounted to SEK 55 billion and the value of coins to SEK 3 billion (see Table 3).

**Table 3 Value of banknotes and coins in circulation, SEK billion**

	2014	2015	2016	2017	2018
Total value at 31 December	83	73	62	58	62
Banknotes	78	68	58	55	59
Coins	5	5	5	3	3
Total value, average during the year	80	77	65	57	58
Banknotes	75	71	60	53	55
Coins (excluding commemorative coins)	5	5	5	4	3

Note: The data in the table have been rounded off.

Source: The Riksbank

In 2018 the Riksbank signed an agreement with British banknote manufacturer De La Rue concerning printing Swedish banknotes. The Swedish banknotes will thus be printed in the UK. The reason for the Riksbank changing banknote manufacturer was that the former provider, Crane, was to close down its printing plant in Tumba outside Stockholm and relocate banknote manufacturing to Malta.



In 2018 the Riksbank Committee presented the interim report ‘Guaranteed access to cash’ (SOU 2018:42). According to the directives, the Committee was to submit its final report in 2019, but the matter of cash had been given priority as it was considered urgent. The Committee’s proposal was that banks of a certain size should be obliged to provide the services cash withdrawal and management of daily takings to such an extent as to provide reasonable access to these services throughout Sweden. The Riksbank submitted a consultation response to the report. In the final report of the Committee, due in 2019, a bill on the Riksbank’s responsibility for cash management and cash provision will be presented.

The Cash Handling Advisory Board, a forum for discussing issues concerning cash management in society, held a meeting in 2018 at which the Riksbank Committee’s interim report ‘Guaranteed access to cash’ was discussed. The Board included representatives of the banks, Bankomat AB, cash-in-transit companies, the retail trade and the authorities concerned.

The Riksbank considers that there is great confidence in banknotes and coins in Sweden. There was little counterfeiting of Swedish banknotes in 2018 (see Table 4). The value of counterfeit banknotes removed from circulation amounted to SEK 198,400. The number of counterfeit banknotes amounted to 453. About 70 per cent of these were 500-krona banknotes.

**Table 4 Number of banknotes and coins**

	2014	2015	2016	2017	2018
Number of banknotes in circulation (millions)	325	317	288	265	262
Number of coins in circulation (millions)	1,918	1,917	1,823	1,433	552
Number of counterfeited banknotes	246	295	379	537	453

Note: The information on the number of banknotes and coins in circulation refers to the average over the year and is rounded off. The information on number of coins in circulation does not include commemorative coins.

Source: The Riksbank

## The RIX payment system

The Riksbank provides the payment system RIX, which handles large-value payments in Swedish kronor between banks and other actors. Payments are made in the form of transfers between accounts held by the different participants – banks, clearing organisations and other market participants – with the Riksbank. In order for RIX to function safely and efficiently, sufficient credit limits among the participants, well-functioning collateral management and well-functioning technical systems are required. The Riksbank continually exercises, on its own and together with the participants, the implementation of payments in a situation in which the technical system does not function.



### *Number of participants, transactions and turnover*

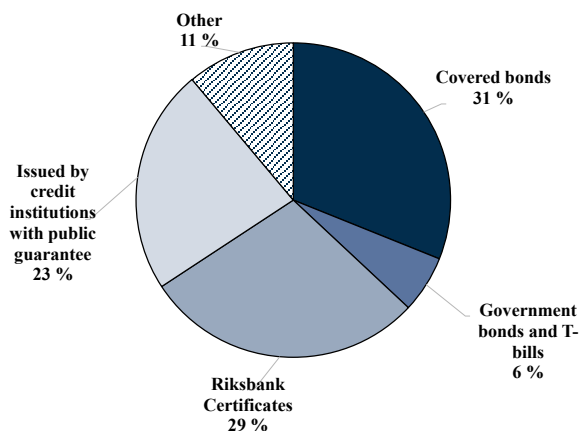
In 2018 three new participants joined RIX and at the end of the year there was a total of 34 participants in RIX. On average, the system handled 21,488 transactions per day in 2018. This is an increase of 5.5 per cent compared with the previous year. Daily turnover, adjusted for monetary policy operations, averaged about SEK 485 billion. This implies an increase of 4.74 per cent compared with the previous year. The average transaction amounted to around SEK 29 million. The corresponding figure for 2017 was SEK 31 million. The RIX system is funded by its participants. On 1 March 2018, the fixed monthly fee was reduced from SEK 60,000 to SEK 55,000. On 1 March 2018, the fee per sent Funds Settlement Instruction was also reduced. Other fees were left unchanged. The main reason for the ability to reduce fees was that transaction volumes increased.

### *Management of collateral and credit limits*

To reduce the risk of transfers in RIX failing because a participant lacks liquidity, the Riksbank can supply liquidity during the day by granting credit to the participants against collateral. This means that transfers can be made more quickly, thus increasing the efficiency of the payment system. The collateral accepted by the Riksbank mainly consists of bonds or other debt instruments with a high credit rating.

Combined, the RIX participants had credit facilities of SEK 197 billion per day on average in 2018. On average, 52 per cent of this credit facility was utilised. At the close of 2018, covered bonds stood for 31 per cent of the value of all collateral pledged to the Riksbank (see Chart 10).

**Chart 10 Collateral value pledged for credit at 28 December 2018, per type of security**



Source: The Riksbank



### *Crisis management in the payment system*

Ensuring that RIX can continue to fulfil its function even in the event of a technical system failure requires efficient contingency routines and continual exercises of crisis management. In 2018, the Riksbank carried out around 30 exercises of varying scope, both independently and with the RIX participants. For example, three joint exercises were carried out with all RIX participants, in which the scenario involved a total stop in the RIX system with subsequent transition to manual routines. The objective of the exercises is to achieve a good ability to limit negative consequences, exercise cooperation with others and take the right decisions in a crisis. It was considered that the exercises worked well.

In 2018 a cooperation exercise was also carried out within the private-public cooperation in the financial sector group (FSPOS). The objective of the exercise in 2018 was to manage and counter cyber threats through cooperation with relevant participants in the sector.

The Riksbank also chairs the private-public cooperation in the financial sector group.

### *Follow-up*

The RIX system is evaluated on the basis of three operational targets: technical availability, cost coverage and customer satisfaction. The target for technical availability is defined as the time that the system functions and payments are settled. The target value for this is 99.85 per cent. The outcome for 2018 was 99.7 per cent. Five incidents occurred that meant that RIX could not conduct payments for a total period of 458 minutes.

All costs relating to the provision of services in RIX are to be covered by fees paid by the participants. In 2018, these costs amounted to SEK 82.5 million, 105 per cent of which was covered by fees. Over a three-year period (2016–2018), cost coverage was 99 per cent. The requirement for full cost coverage is measured over a three-year period, in which revenues are to correspond to 100 per cent of costs  $\pm 10$  per cent.

Every second year, the Riksbank conducts a survey to evaluate how users perceive the Riksbank's services. No survey was conducted in 2018. The 2017 survey showed that customer satisfaction is very high: 100 per cent were satisfied or very satisfied.

## Financial stability

The Riksbank's financial stability efforts in 2018 largely involved monitoring developments in Sweden and abroad so as to analyse any risks and vulnerabilities that may be accumulating in the financial system and threatening stability. The Riksbank also proposed measures to reduce these risks.

In addition, work continued on influencing the formulation and introduction of national and international financial regulations. As part of this, the



Riksbank participated in international work and also submitted several consultation responses (see also Annex 2). The Riksbank also participated in the Financial Stability Council.

### **National work to strengthen the financial system**

The Riksbank's assessment is that the Swedish financial system functioned well in 2018. However, there were vulnerabilities and risks that could threaten financial stability. According to the Riksbank, the greatest risk to the Swedish financial system was households' high and rising indebtedness. Vulnerabilities and risks linked to the banking system in Sweden were also highlighted. The Riksbank also stressed that risks linked to developments abroad, such as the trade conflict between the United States and China, and uncertainty about the effects of the UK's withdrawal from the EU, could affect financial stability in Sweden.

The Riksbank finds that the financial infrastructure has functioned well overall, and that availability has mainly been good, but noted at the same time that disruptions had occurred and that resilience needed to increase.

#### *Households' indebtedness is the greatest risk in the Swedish economy*

The high and rising indebtedness of households continued to pose the greatest risk in the Swedish economy in 2018. Swedish households are highly indebted, in both a historical and international perspective. The aggregate debt-to-income ratio, which is to say debts in relation to disposable income, amounted to over 185 per cent in the autumn of 2018. The average for the 22 of 36 OECD countries for which comparable data exists was 126 per cent in 2017.

In parallel with the rising indebtedness, housing prices have also risen heavily over a long period of time. In the autumn of 2017, however, prices started to decline but in 2018 they stabilised. The increased supply of housing in recent years and amortisation requirements may have contributed to curbing price developments. The Riksbank deemed that a slower rate of price increase is positive and will contribute to a more stable development on the housing market. At the same time, there is a great deal of uncertainty about price developments on the housing market, and a sizeable drop in prices cannot be ruled out.

The combination of large debts and the fact that most borrowers have taken out their mortgages at a floating rate means that households could rapidly be affected by rising interest rates, which could have a negative impact on their consumption.

One reason why indebtedness is rising in the Riksbank's view is the poor functioning of the housing market. Among other aspects, the Riksbank stressed the importance of creating a better balance between supply and demand on the housing market and emphasised the importance of carrying out reforms that lead to more efficient use of the housing stock. One reason among others why the housing market is functioning poorly is that the rent-setting



system creates supply limits and lock-in effects that make it particularly difficult for young people and people who are not yet established on the housing market to find housing. The Riksbank found that housing policy measures are required to achieve a better-functioning housing market which, in the long term, could mitigate the risks associated with the high level of household indebtedness. The Riksbank has also emphasised that tax policy is in need of review. Among other factors, this could involve reviewing capital gains taxation when homes are sold, property tax and tax relief on interest expenditure. The Riksbank also underscored the role of macroprudential measures in reducing risks related to households' high and rising indebtedness and supported Finansinspektionen's proposal for an increased countercyclical capital buffer.

### *Economic and political uncertainty abroad presents risks*

Sweden is a small, open economy with extensive foreign trade and a financial system that is heavily dependent on international financial markets. Economic and political uncertainty abroad therefore poses risks to the Swedish macroeconomy and financial stability. Like before, during the year there were a number of international risks linked to economic and political uncertainty which, if they transpire, could lead to weaker economic developments. For example, there remains uncertainty about the economic and financial effects of the UK's withdrawal from the EU. There are also several structural problems in the euro area, for instance regarding the banking sector and weak public finances in several countries. Also, there is continuing unease concerning the perceivable effects of increased protectionism.

### *Structural vulnerabilities in today's banking system*

The Riksbank pointed out once more that there are several vulnerabilities and risks linked to the banking system in Sweden, including its size, concentration, limited capital levels and, in some respects, low resilience to liquidity risks. The banks' major exposures to the real estate market and developments on the housing market further increase the vulnerabilities. Loans to Swedish households and non-financial corporations with housing or other types of property as collateral have increased and make up about 80 per cent of the major banks' lending to these borrowers. The banks largely fund these loans on the capital market, for instance covered bonds are used – the collateral for which consists of mortgages – to fund, in turn, mortgages. As mortgages have increased, so too has the volume of outstanding covered bonds. This makes the banks sensitive to a fall in housing prices, as this could affect confidence in them, as well as making it more difficult and expensive to obtain funding. Another vulnerability is that the banks are among the largest owners of each other's covered bonds, which means that problems in one bank can quickly spread to the rest of the financial system.

In 2018 the Riksbank also continued to stress the importance of banks with substantial operations in Sweden holding sufficiently high liquidity reserves





to ensure that they can manage the liquidity risks they take in their operations. In addition to Swedish kronor, the Swedish banking system also has significant assets and liabilities in foreign currency and is thereby exposed to liquidity risks in these currencies too. The Riksbank therefore urged Finansinspektionen to set requirements for the Swedish major banks' liquidity coverage ratios (LCRs) in Swedish kronor and in other significant currencies. Furthermore, the Riksbank found that foreign supervisory authorities should ensure that foreign banks with substantial operations in Sweden should be subject to equally strict requirements. The LCR levels of the major banks vary over time, but are very low at times, particularly in Swedish kronor. Some of the major banks have at times had LCRs of only around 10 per cent in Swedish kronor. If one assumes that the cash flow is even over a month, an LCR of 10 per cent means, put simply, that a bank could meet its liquidity need in this currency for around three days.

### *Large banking system either with or without Nordea*

Following its relocation to Finland, Nordea remains active in Sweden, as a branch and through the four subsidiaries. The Riksbank considered that the relocation would not change either the size of the Swedish operations, or the interconnectedness with other banks. At the same time, the European banking union is still not fully developed, meaning that a substantial part of responsibility for managing banking problems in the banking union rests with the Member States. In connection with Finansinspektionen's decision on Nordea's merger, the Riksbank stressed the importance of the relocation of Nordea's head office not leading to heightened stability risks through, for instance, reduced capital and liquidity requirements for the bank. In the longer term, when the banking union is fully developed, more intensive supervision and increased diversification of risks between the countries of the union could lead to lower risks for Sweden.

### *Elevated operational risks in the financial infrastructure*

The Riksbank's oversight of the financial infrastructure showed that it functioned well overall during the year. The financial market infrastructures have taken measures to improve their resilience to disruptions. Nonetheless, the Riksbank found that the operational risk in the financial infrastructure was elevated due to the risk of cyberattacks, amongst others. As IT operations are increasingly being outsourced to external suppliers, it is important to monitor how this affects resilience to cyberattacks. The Riksbank also highlighted that there will be elevated operational risk in the financial system until Euroclear Sweden has adapted its IT system for securities settlement to the EU's new requirements for central securities depositories.

In the autumn, one of the participants in Nasdaq Clearing defaulted, whereby Nasdaq Clearing had to take from its pre-financed resources to cover the loss that arose and quickly request new funds from existing members. The



situation clearly demonstrated the importance of central counterparties always having sufficient pre-financed resources, so that they can manage the risks to which they are exposed and to make them resilient in the event of any defaults. Besides the default of the Nasdaq Clearing participant, two large disruptions in the Riksbank's payment system RIX occurred in the autumn, leading to an inability to settle transactions for more than two hours in both instances. This type of disruption has a negative impact on the RIX participants' operations, and thus poses risks to the financial system. The Riksbank works continually to reduce the risk of such incidents occurring.

### *Financial Stability Council*

The Financial Stability Council met twice in 2018. At the Council's meetings, the authorities continued to discuss matters including the risks inherent in households' high indebtedness. The Riksbank noted that the measures implemented so far have mainly been aimed at new lending. To attain a better balance on the housing market, the Riksbank argued that measures are needed that affect the entire stock of outstanding loans. A better balance is also needed between supply and demand on the housing market. Part of this consists of performing an oversight of, for example, the regulation of rents and the tax system. The Riksbank also found that an important measure is to review the rules governing early mortgage redemption, and that a central register of pledges for tenant-owned homes is needed.

The Council also discussed the consequences of Nordea's relocation of the head office to Finland, and emphasised that risks to financial stability persist in Sweden despite the relocation. Also, the authorities discussed cyber security-related work.

Over the year, the Council also discussed the new players that have started to compete with the banks for mortgage customers. The Riksbank found the increased competition to be positive. If these developments lead to mortgages arranged through the new entities being funded on longer maturities than is currently the case, this could reduce the liquidity risks in the financial system. However, at the same time new risks and challenges could emerge, and it is therefore important that the new entities are covered by relevant macroprudential regulation and that thorough credit assessments are performed.

The authorities in the Stability Council also carried out scenario exercises during the year, aimed at strengthening the ability of Swedish authorities to manage financial firms in crisis. The authorities also worked on preparing a joint manual for crisis management, and worked further with the lessons learnt from previous scenario exercises.

### **International work to strengthen the financial system**

The laws regulating Swedish banks and financial institutions are largely based on standards developed on an international level. An important part of the



Riksbank's work on financial stability is therefore participating in various international forums to influence the formulation of financial standards and financial supervision.

Over the year, the Riksbank participated in discussions and decisions on the formulation of standards, rules and supervision on both the global and EU levels. In many of these issues, the Riksbank also cooperated with Finansinspektionen, the Swedish National Debt Office and the Ministry of Finance. This international work took place primarily as part of the Basel Committee, the Committee on Payments and Market Infrastructures (CPMI), the International Monetary Fund (IMF) and various EU bodies such as the European System of Central Banks (ESCB), the European Banking Authority (EBA), the European Systemic Risk Board (ESRB) and the Economic and Financial Committee (EFC).

### *Global cooperation on banks*

The Basel Committee on Banking Supervision is the primary global standard-setter for regulation and supervision of internationally active banks. In order to promote global financial stability, the Committee is developing standards for minimum requirements for such banks. Governor Stefan Ingves is Chairman and First Deputy Governor, and Kerstin af Jochnick is the Riksbank's representative on the Committee. Over the year, Riksbank officials also participated actively in several working groups.

In 2018 the Basel Committee primarily focused on 1) fully completing the Basel III framework, the most important component having been completion of the market risk framework, 2) seeking to ensure that the standards are fully implemented, on time and consistently in all Member States, 3) promoting banking supervision-related matters, and 4) launching a framework for evaluating the reforms with a view to assessing the consequences of the Basel standards and identifying potential undesirable effects of the standards.

The Financial Stability Board (FSB) is an international organisation established to coordinate national authorities and international standard-setters and promote effective legislation in the financial sector. Sweden is not a member of FSB, but participated in the FSB Regional Consultative Group for Europe, in which Deputy Governor Henry Ohlsson represented the Riksbank. The Riksbank was also involved in FSB's efforts to develop crisis management for financial infrastructure. As Chairman of the Basel Committee, Governor Stefan Ingves also took part in FSB's meetings at steering-committee level and plenary level.

### *Global cooperation on financial infrastructure*

Over the year, the Riksbank took part in joint efforts with several international bodies to analyse interconnectedness between central counterparties (Central Counterparty Clearing, CCP) and their participants. The Riksbank also participated in work together with these organisations aimed at looking into what



the incentives are for central counterparty clearing, after the implementation of G20's financial reforms following the financial crisis ten years ago. The Riksbank also participated in work on two reports that were published by CPPI regarding digital currencies and cross-border payments. CPPI also devised a strategy for reducing the risk of fraud in systems for large-value payments, such as RIX.

The Riksbank also participated in international oversight arrangements for several financial infrastructure systems in which payments and transactions in financial instruments are managed, either due to legal requirements or through mutual agreements. Also, the Riksbank participated in the oversight of SWIFT, which is a global supplier of secure financial messaging services, which are used by parties including banks and central banks around the world.

### *European cooperation*

The Riksbank participated in EFC, which prepares meetings of the Economic and Financial Affairs Council. The Committee discussed among other issues matters of joint interest within the framework of IMF, strategic issues with a bearing on the EMU and the functions of the Single Market, the Council's action plan for managing the banks' non-performing loans (NPLs), and the Commission's initiatives within the capital markets union. Among other things, the Riksbank worked for more effective measures to address non-performing loans.

Over the year, the Riksbank took part in working groups of the ESCB. Therein, matters were discussed concerning the requirements in terms of cyber security that central banks should impose on financial infrastructure, and devising a common framework for penetration tests. Another focus area was the work on preparing technical standards prompted by the second payment services directive (Revised Payment Services Directive, PSD2). This work took place as part of the cooperation between the ECB and EBA. The Riksbank was also active in the joint monitoring and analysis efforts concerning the European payment market, which is undergoing rapid digitalisation.

### *European cooperation on macroprudential policy*

The ESRB identifies, analyses and counteracts financial systemic risks in the EU, and the Riksbank participates on its board, Advisory Technical Committee and a number of working and expert groups. Amongst other things, in 2018 the Riksbank contributed to devising a report on macroprudential approaches for preventing non-performing loans at banks, devising the macroeconomic scenarios that form the basis for stress tests of European banks, and analysis of interconnectedness of infrastructure systems. The Riksbank also contributed in the analysis of whether it is possible to introduce in Europe securities backed by the euro countries' government bonds (sovereign bond-backed securities – SBBS).



### *Nordic-Baltic cooperation*

In 2018, the Riksbank continued with the Nordic-Baltic cooperation in the field of financial stability. In 2018, two meetings of the Nordic-Baltic Macroprudential Forum (NBMF) were held. This is a forum for cooperation between central banks and financial supervisory authorities, which focuses on financial stability risks and macroprudential policy in the Nordic-Baltic region. In addition to general risks that could affect the region, the group continued to discuss matters including how authorities can mutually recognise each other's measures for macroprudential policy.

The Riksbank also continued its work in the Nordic-Baltic Stability Group (NBSG), a forum for ministries of finance, central banks and financial supervisory and resolution authorities in the Nordic and Baltic countries. The stability group has the task of strengthening preparedness and the management of cross-border financial stability issues in the Nordic-Baltic region. Finland chaired the NBSG in 2018.

### *International commitments*

In addition to the international and European cooperation aimed at strengthening the financial system, the Riksbank also has other international commitments.

#### **The International Monetary Fund**

The Riksbank's work with the IMF includes developing Sweden's position in cooperation with the Ministry of Finance ahead of discussions in and decisions by the IMF's Executive Board. Over a four-year period to the end of 2019, Sweden is representing the Nordic-Baltic constituency in the IMF. During this period, the Riksbank and the Ministry of Finance are coordinating the preparation of positions in the constituency.

The Riksbank contributes to the IMF's funding through member capital (all countries contribute proportionately) and bilateral arrangements to borrow (countries contribute voluntarily). During 2016–2017, the IMF signed new bilateral loan agreements with about forty of its member countries, including Sweden via the Riksbank. The loans cover the period until 2020, at most. In 2018, discussions continued regarding the IMF's general future availability of resources, in terms of both member capital and bilateral arrangements to borrow.

In connection with the IMF Annual Meeting in Indonesia in October, the Governor of the Riksbank represented the Nordic-Baltic constituency in the International Monetary and Financial Committee (IMFC). At Annual Meetings, ministers of finance and central bank governors discuss the main focus of the IMF's work in both the short and medium term. At this meeting, the Governor of the Riksbank pointed out the importance of all countries together



meeting the common challenges in the economic and financial area. Furthermore, he stressed that the Nordic-Baltic constituency upholds the IMF's central role in the global financial safety net.

Major issues addressed by the IMF's board during the year included the crisis loan to Argentina and the discussions regarding an extended and reinforced result and planning framework for the IMF's activities in capacity development and technical assistance in the member countries.

### **Technical assistance**

The Riksbank cooperates with central banks in developing countries to share knowledge in the field of important central bank-related subjects. This type of expert aid is usually called technical assistance. Around 20 different initiatives were carried out in Ukraine and Palestine in 2018. The activities were financed by funds from the Swedish International Development Cooperation Agency, Sida.

### **In-depth analysis**

In certain selected areas, the Riksbank worked to deepen its analysis of the financial system in particular.

#### *Risks and developments on the housing market*

In 2018 the Riksbank deepened the analysis concerning developments on the housing market as a consequence of the drop in prices towards the end of 2017, and of the uncertainty that persists on the housing market. This work resulted in a number of publications. The analyses that formed the basis of the publications concerned the need for homes, and this need was placed in relation to demand, the finances of tenant-owner associations and risks linked to financial stability, how the production of new homes is affected by the uncertain state of the market, and how the progression of debt has been affected by various factors on the housing market. For a long period of time, the Riksbank has considered that there are imbalances on the Swedish housing market and risks associated with household indebtedness. These imbalances and risks should primarily be managed through measures in housing and tax policy. It is also important that macroprudential policy is appropriately devised.

#### *Financial operations and new entities*

FinTech, which is to say financial services combined with new technical innovations, has received considerable attention in recent years. The Riksbank, like other government agencies and international standard-setting organisations, therefore analyses FinTech and its effects on the financial system.

In 2018, the Riksbank analysed the changes that the Swedish mortgage market is facing. New entities, such as loan intermediaries and non-banks, are



gaining increasing importance on the market. Loan intermediaries help mortgage holders to reduce their borrowing costs and non-banks compete with traditional banks for mortgage customers. While the mortgage volumes managed by the new entities are indeed currently small, both in relation to total annual flow and outstanding volume, experience from other countries nevertheless shows that the new entities could become important on the mortgage market. These developments could be positive for financial stability, for instance if competition increases and the new entities use more stable funding sources than the banks. The new business models are however relatively untested, and if house prices were to fall again, this could instead pose new risks.

### *Macroprudential conference*

In June 2018 the Riksbank arranged a macroprudential conference. It was the fourth in a series of annual macroprudential conferences. These are organised together with the Dutch and German central banks. Next year, the German central bank will host the event. The purpose of these conferences is to bring together prominent academics, public-sector decision-makers and representatives from the financial industry to discuss topical issues concerning the financial sector. At this year's conference, a great variety of issues were discussed, including whether a currency union requires a capital markets union, how pension systems affect global interest rates, what the fiscal implications are when pension systems are not fully funded, how the European resolution framework functions, how crypto assets affect the allocation of savings and capital, whether changed rules regarding banks' provisions for non-performing loans could act pro-cyclically, and how Germany managed the global financial crisis.

### *Deepening of the banking union*

During the year, work commenced in the Inquiry regarding potential participation in the European banking union (Fi 2017:10). The Riksbank is represented in the expert group linked to the inquiry. The inquiry will be put before the Government no later than 30 November 2019.

## Asset management

*The Riksbank's balance sheet total increased in 2018, largely because the Riksbank continued to prematurely reinvest maturities and coupon payments in the Swedish government bond portfolio. In addition, the weakening of the Swedish krona during the year had a positive impact on asset value. At the end of the year, the value of the Riksbank's financial assets was SEK 933.1 billion.*

### Financial assets and liabilities

The Riksbank manages financial assets to ensure that it can fulfil its statutory objectives and perform its tasks. The majority of the financial assets consist of the gold and foreign currency reserve. This gives the Riksbank the possibility, if necessary, to supply temporary liquidity assistance in foreign currency and to intervene on the foreign exchange market. The foreign currency reserve consists of debt securities in foreign currencies with high liquidity and low credit risk, primarily government bonds. The Riksbank also holds assets in the form of securities issued in Swedish kronor. These assets mainly consist of the Swedish nominal and real government bonds that the Riksbank purchased over the period 2015–2018 for monetary policy purposes. The Riksbank's assets also include receivables from the IMF, as the Riksbank is the authority in Sweden that is responsible for the obligations ensuing from Sweden's membership of the Fund. The Riksbank stands prepared to use its gold and foreign currency reserve to lend money to the IMF, which, in turn, lends money to countries with balance of payment problems.

The Riksbank's financial liabilities mainly consist of the liability in SEK arising when the banking system deposits part of its liquid assets with the Riksbank, assets which, in recent years for example, have been created through the Riksbank borrowing from the banks to purchase government bonds. The Riksbank also has financial liabilities in foreign currencies to the Swedish National Debt Office. These liabilities consist of US dollars and euros that the Riksbank has borrowed from the Debt Office to strengthen the foreign currency reserve.

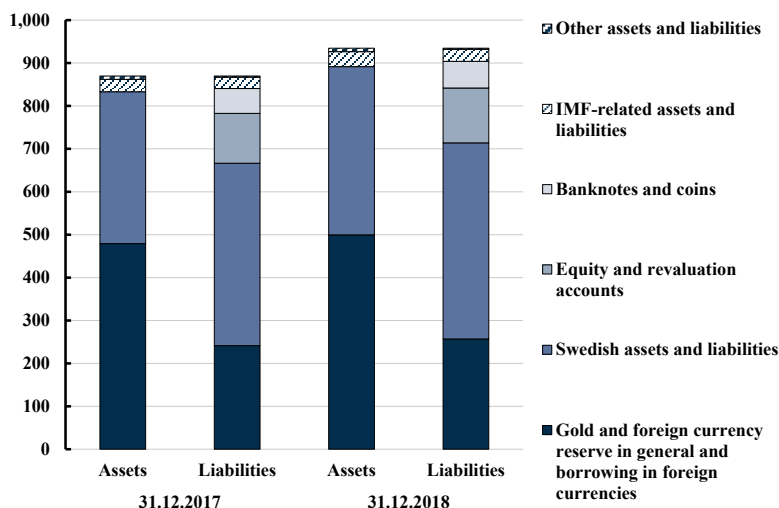
Over the year, the balance sheet total increased by SEK 64.9 billion to SEK 934.5 billion, primarily due to the Riksbank's purchases of Swedish government bonds (see Chart 11). The Riksbank's equity (including the financial result for the year and the revaluation accounts) increased by SEK 11.8 billion to SEK 128.0 billion, mostly due to an increase of the value of the gold and foreign currency reserve. At the end of 2018, the total return on the Riksbank's financial assets and liabilities amounted to SEK 14.6 billion (see Table 5).

A more detailed description of the various components of asset management and their development over the year is provided in the following section.





**Chart 11 The Riksbank's balance sheet at the end of 2017 and 2018, SEK billion**



Source: The Riksbank

**Table 5 The Riksbank's asset management at the end of 2018, SEK million**

	Assets	Liabilities	Return	Return excl. exchange rate effects
<b>Gold and foreign currency reserve incl. the IMF</b>	<b>536,926</b>	<b>286,241</b>	<b>9,537</b>	<b>1,817</b>
Gold reserve	45,981	–	2,792	–
Foreign currency reserve	456,145	258,477	7,092	1,789
IMF	34,800	27,764	–347	28
<b>Derivative instruments</b>	<b>–</b>	<b>616</b>	<b>–368</b>	<b>–327</b>
<b>Securities in SEK</b>	<b>396,135</b>	<b>–</b>	<b>3,095</b>	<b>3,095</b>
<b>Monetary policy operations</b>	<b>64</b>	<b>456,724</b>	<b>2,313</b>	<b>2,313</b>
Standing facilities	0	422	3	3
Fine-tuning	5	104,099	399	399
Riksbank Certificates	59	352,203	1,911	1,911
<b>Total</b>	<b>933,125</b>	<b>743,581</b>	<b>14,577</b>	<b>6,898</b>

Note: The calculation of the return is based on both assets and liabilities and is reported for the Riksbank's net receivables.

Source: The Riksbank

## Gold and foreign currency reserve

The gold and foreign currency reserve is managed so that the Riksbank can always be ready to fulfil its commitments. The reserve must therefore be composed so that it can be used, when necessary, to provide temporary liquidity support to Swedish banks, to fulfil Sweden's part in the IMF's international lending and to intervene on the foreign exchange market. In addition, the reserve is designed to diversify risks and attain a higher return in relation to the risk taken.

In 2018, the overall distribution of the assets in the gold and foreign currency reserve was held unchanged. At the end of the year, however, the Executive Board decided on a new financial risk and investment policy (see also the box The Riksbank's financial risk management). The new policy involves, amongst other things, the inclusion of also Danish and Norwegian kroner in the foreign currency reserve to better fulfil the Riksbank's need to stand prepared with foreign currency. Provided that the foreign currency reserve fulfils the requirements regarding preparedness involved in the Riksbank's commitments, the Riksbank will also take sustainability aspects into consideration. The new policy entered into force on 1 January 2019.

The Riksbank's preparedness to provide temporary liquidity assistance in foreign currency at short notice places heavy demands on the composition of the gold and foreign currency reserve. Most of the foreign currency reserve is maintained in those currencies in which emergency liquidity assistance may be needed and in such assets as can rapidly be converted into liquid funds. Consequently, the foreign currency reserve's assets mainly consist of government bonds in US dollars and euros. At the end of the year, the total assets in US dollars and euros amounted to 49 per cent and 31 per cent respectively of the gold and foreign currency reserve (see Chart 12).

In 2018, in order to diversify risks and attain a higher risk-adjusted return, the Riksbank followed the procedure of previous years and invested a small part of the reserve in other currencies than the US dollar and the euro. These investments were mostly made in British government bonds, Australian government and federal state bonds and Canadian government and provincial bonds.

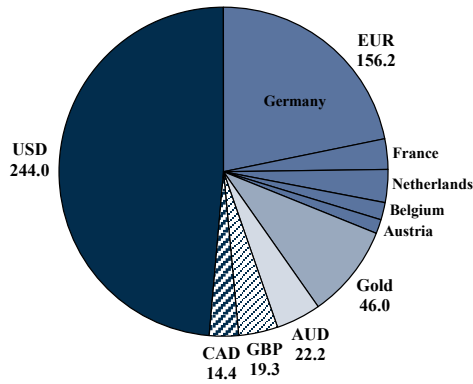
As the Riksbank's assets mainly consist of US dollars and euro, the bank's financial result is affected by the way the value of these two currencies develops in relation to the Swedish krona. However, the effect on the result is counteracted by the Riksbank also having liabilities in US dollars and euro. To further reduce the effect of exchange rate changes, over the year the Riksbank converted some of its exposure to US dollars to exposure to Norwegian kroner with the aid of currency swaps. A currency swap is an agreement to exchange one currency for another over a predetermined period of time. Chart 13 shows the Riksbank's currency exposures at the end of the year.

Due to the internationally low interest rates and the increased risk of an increase in interest rates, the Riksbank decided, over the year, to retain the



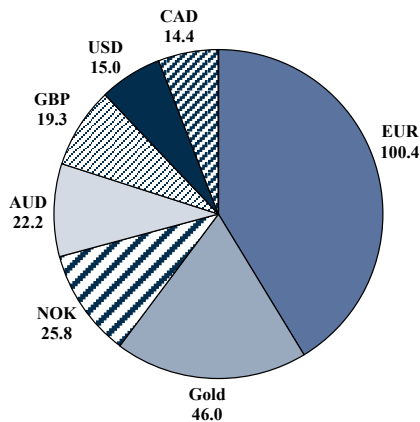
interest-rate sensitivity of the foreign currency reserve at a fairly low level around 3, measured as modified duration. The measure shows how sensitive the value of a debt security is to changes in the interest rate.

**Chart 12 Composition of the gold and foreign currency reserve at the end of 2018, SEK billion**



Note: The figures in the chart show the market value of the gold and foreign currency reserve, including accrued interest.  
 Source: The Riksbank

**Chart 13 The Riksbank’s foreign currency exposure at the end of 2018, SEK billion**

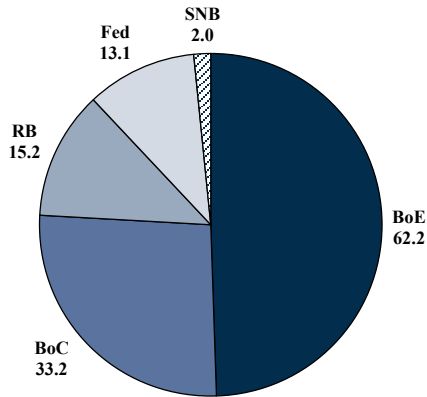


Note: The figures in the chart show the Riksbank’s foreign currency exposure including accrued interest. The calculation of foreign currency exposure is based on both assets and liabilities (including currency swaps) and is reported for the Riksbank’s net receivables.  
 Source: The Riksbank



The Riksbank has a gold reserve that amounts in total to 125.7 tonnes of gold. The Riksbank owns gold largely due to gold's historical link to banknotes and coins, as the Riksbank was obliged to be able to redeem banknotes for gold during a period when the gold standard was in use, among other things. Nowadays, however, gold is a financial asset that, like the currency reserve, aims to ensure that the Riksbank can carry out its tasks. The Riksbank's gold reserve is stored by the central banks in the United Kingdom (the Bank of England), Canada (the Bank of Canada), the United States (the Federal Reserve Bank of New York) and Switzerland (the Swiss National Bank), as well as at the Riksbank's own depot in Sweden (see Chart 14).

**Chart 14 Storage of the gold reserve at the end of 2018, tonnes**



Source: The Riksbank

Storing all of the gold in the same place would pose too much of a security risk, so the Riksbank stores the gold in different locations around the world. Almost half of the gold reserve is stored in the United Kingdom, where the world's largest commercial gold market, the London Bullion Market, is based. This market is the most liquid and central marketplace for trading bullion. Holding it at the Bank of England allows a large part of the Riksbank's gold to be converted at very short notice, should the need arise. In this way, the gold can be considered a liquid asset.

As in previous years, the Riksbank also stored gold on behalf of others in 2018.

## Positive return on the gold and foreign currency reserve

The return on the foreign currency reserve amounted to SEK 7.1 billion. The positive return is mainly due to the fact that the currencies in the foreign currency reserve strengthened on average against the Swedish krona over the year. The overall exchange rate effect, which is to say the return attributable to exchange rate fluctuations, amounted to SEK 5.3 billion. Return excluding exchange rate effects was also positive, amounting to SEK 1.8 billion, mainly as a result of interest income from the Riksbank's foreign securities.

Gold is traded and priced in US dollars, and in 2018 the price of gold expressed in dollars decreased by 1.5 per cent (see Chart 15). However, as the dollar strengthened against the Swedish krona, the price of gold in kronor increased by 6.5 per cent. The return on the Riksbank's holdings of gold thereby amounted to SEK 2.8 billion over the year.

**Chart 15 Gold price movements 2018**



Note: One troy ounce is equivalent to about 31 grammes.  
Source: Reuters and Bloomberg.

Over the year, the Riksbank's liability to the Swedish National Debt Office was, in principle, held unchanged in foreign currency. However, as the krona depreciated, the value of this liability, measured in kronor, increased by SEK 16.9 billion, reaching SEK 256.3 billion by the end of the year. Loans in US dollars and euros amounted at year-end to 78 per cent and 22 per cent respectively of the liability to the Debt Office.

At the end of the year, the total value of the Riksbank's derivative instruments was negative and entailed a liability of SEK 0.6 billion. The return on these derivative instruments excluding exchange rate effects amounted to SEK -0.3 billion over the year (see Table 5). More information on derivative instruments can be found on page 74.

## Evaluation of the management of the foreign currency reserve in 2018

The Riksbank's management of the foreign currency reserve is evaluated by comparing the risk-adjusted return on the foreign currency reserve with an equivalent return on what is known as a reference portfolio. Without considering return, this reference portfolio is composed of the securities that are particularly important to the Riksbank's ability to carry out its tasks. In 2018, the reference portfolio consisted of 60 per cent US and 40 per cent German government bonds, whose overall interest-rate sensitivity was 4, measured as modified duration. The risk-adjusted return is measured as a Sharpe ratio and is calculated both excluding and including exchange rate effects.

The risk-adjusted return in Swedish kronor was lower for the foreign currency reserve than it was for the reference portfolio (see Table 6). The foremost reason for this was that the lower proportion of US dollars entailed a lower return on the foreign currency reserve. Measured in local currency, it was primarily the foreign currency reserve's lower exposure to US interest rates and higher exposure to German interest rates that contributed towards the risk-adjusted return on the foreign currency reserve being lower than that on the reference portfolio.

**Table 6 Return, risk and Sharpe ratio at the end of 2018, return and risk as a percentage**

	Foreign currency reserve	Reference portfolio
<b>Measured in Swedish kronor</b>		
Return	3.4	7.5
Risk	6.5	8.3
Sharpe ratio	0.6	1.0
<b>Measured in local currency</b>		
Return	0.6	1.1
Risk	1.0	1.5
Sharpe ratio	0.0	0.3

Source: The Riksbank

### *The Riksbank's financial risk management*

The Riksbank's financial risk and investment policy sets the outer frameworks for dealing with the financial risks arising in the management of the Riksbank's assets and liabilities. On 5 November 2018, the Executive Board decided on a new financial risk and investment policy which, besides having an altered document structure, reflects more clearly than before the assets that need to be held for the purpose of contingency planning. As a consequence of the new document structure, it is proposed that amendments should be made to the Rules of Procedure and Instructions for Sveriges Riksbank in connection with the 2019 oversight. The changes entail that responsibility for preparing all governing documents within managing financial risks and investments are

gathered under the responsibility of the Chief Risk Officer. The new regulations enter into force on 1 January 2019.

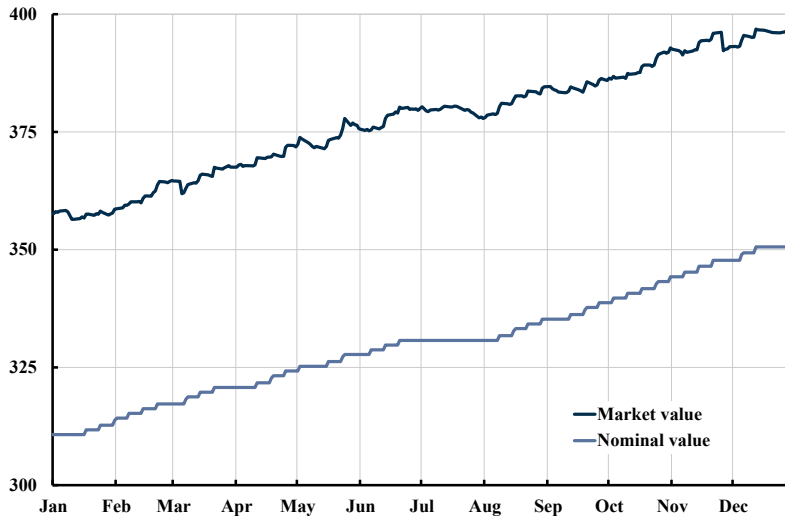
The financial risks consist of market risk, credit risk and liquidity risk. Follow-up of the financial risks to which the Riksbank is exposed is mainly carried out in the Markets Department, which is responsible for day-to-day risk control, while the Risk Division is responsible for the overall and independent risk control.

The Riksbank regularly conducts stress tests to measure the sensitivity of the Riksbank's financial assets and liabilities to unexpected market events. The stress tests show how much the value might change if a particular scenario, hypothetical or historical, occurs.

## Securities in Swedish kronor

Over the year, the Riksbank reinvested maturities and coupon payments in the Swedish government bond portfolio by purchasing Swedish nominal and real government bonds to a nominal value totalling SEK 40 billion (see the section Maintaining the value of money – price stability). The greater part of the reinvested amount, SEK 36 billion, referred to purchases of nominal government bonds. All bond purchases over the year were conducted on the secondary market at a total of 43 auctions (see Chart 16).

**Chart 16 The Riksbank's holdings of Swedish government bonds 2018, SEK billion**



Note: The chart shows the market value and the nominal value of the Riksbank's holdings of Swedish government bonds over the year. Reinvestments of maturities and coupon payments on the government bond portfolio were distributed throughout the year.

Source: The Riksbank

The comprehensive purchases in recent years of Swedish government bonds have meant that the Riksbank's return is now more sensitive to interest rates



(a more detailed risk analysis can be found in the section Analysis of the Riksbank's financial result and equity). Over the year, the market value of the holdings of Swedish government bonds was positively impacted by the fall in Swedish long-term interest rates over the year and the return on the holdings amounted to SEK 3.1 billion (see Table 5). At the end of the year, the market value of the Riksbank's holdings of Swedish government bonds amounted to SEK 396.1 billion. The remaining time to maturity on the bonds varied from two months to 20 years and the bonds' total interest-rate sensitivity, measured as modified duration, amounted to 4.3. As a proportion of the outstanding stock of Swedish nominal and real government bonds denominated in Swedish kronor, the Riksbank's holdings amounted to 43 per cent.

## Monetary policy operations

The Swedish banking system has a liquidity surplus that is regularly deposited at the Riksbank through various monetary policy operations. The Riksbank mainly borrows the liquidity surplus either via overnight loans, so-called fine-tuning operations, or by issuing Riksbank Certificates. This borrowing means that the Riksbank has a debt to the banks. The Riksbank also provides so-called standing facilities, which means that the banks can borrow money from or deposit money with the Riksbank overnight (see also the section Balance sheet and profit and loss account).

Deposits from the banking system amounted to SEK 456.7 billion at year-end, which is an increase of SEK 38.2 billion from the previous year (see Table 5). This increase is largely due to the Riksbank's purchases of Swedish government bonds for monetary policy purposes (see the section Maintaining the value of money – price stability). This is explained by the fact that the liquidity created in the banking system when the Riksbank buys bonds is deposited with the Riksbank. Another reason for the increase in deposits was that, in May, the Riksbank transferred SEK 2.3 billion to the Treasury, as the Riksbank chose to finance the transfer by borrowing from the banking system.

Over the year, negative deposit rates led to total deposits generating SEK 2.3 billion in interest income. Average deposits during the year via Riksbank Certificates and fine-tuning operations amounted to SEK 376.7 billion and SEK 66.0 billion respectively.

## The Riksbank's financial commitments to the IMF

The Riksbank contributes towards the funding of the IMF via capital contribution and arrangements to borrow, and stands prepared to use the gold and foreign currency reserve to meet its commitments in relation to the Fund. The Riksbank's commitments in relation to the IMF are described in more detail in the box International commitments and in the section Balance sheet and profit and loss account.





Over the year, the Riksbank's transactions with the IMF, which is to say those related to the IMF's onward lending to other countries, contributed towards an increase in the utilised part of the Riksbank's commitment in relation to the IMF. Also, the General Arrangements to Borrow (GAB) ended at the end of 2018. However, this change did not affect the Riksbank's total commitment towards the IMF, as GAB, and the similar New Arrangements to Borrow (NAB) had a joint cap on the amount, which remained at the same level after GAB ended. All in all, the IMF only utilises a small part of the maximum commitment, corresponding to SEK 263 billion (see Table 7).

The value of the Riksbank's receivables from the IMF was SEK 34.8 billion at year-end, while the value of the Bank's liabilities to the IMF was SEK 27.8 billion (see Table 5). The return on the net receivables amounted to SEK 28 million over the year, excluding exchange rate effects.

**Table 7 The Riksbank's financial commitments to the IMF at the end of 2018, SEK million**

	Utilised	Maximum	Unutilised
Capital contribution (quota)	5,093	54,591	49,498
NAB	2,358	27,801	25,443
Credit agreement	–	91,190	91,190
PRGT agreement	–	6,162	6,162
SDR	27,289	83,143	55,854
<b>Total</b>	<b>34,740</b>	<b>262,887</b>	<b>228,147</b>

Note: The utilised part of the Riksbank's commitment to the IMF does not include accrued interest, which means that the value of the utilised part differs from the value of the Riksbank's receivables from the IMF. The table reports the commitment concerning special drawing Rights (SDR), including the SDR originally allocated by the IMF (for a more detailed account of commitments to the IMF, see also Notes 2, 19 and 38 in the section Balance sheet and profit and loss account).

Source: The Riksbank

## Analysis of the Riksbank's financial result and equity

The Riksbank's result derives largely from the development of the krona exchange rate, as well as international and Swedish interest rates. Recent years' low interest rates have meant that interest income from the Riksbank's foreign securities is low. If interest rates remain low, interest income will also remain low. If interest rates instead start to rise, interest income will gradually rise as the Riksbank's securities mature and are replaced by new ones. However, at the same time, the value of the securities will fall, which is expected to impair the total return on the Riksbank's assets (interest income plus change in market value). In addition, interest expense for the foreign currency that the Riksbank has borrowed is expected to increase.

In 2018, the total return on the Riksbank's foreign securities was positive. In the long run, however, interest rates are expected to rise from the current low levels. In addition, the krona is expected to appreciate gradually, reducing the value in Swedish kronor of assets denominated in foreign currency. Over



the coming five-year period, the Riksbank is therefore expected to achieve a result that is significantly lower than was the case over the previous five-year period. If the krona appreciates heavily or if there is a strong rise in interest rates, the Riksbank may make significant losses. Also, in the event of a sharp rise in interest rates, the Riksbank's ability to make dividend payments to the government will decrease.

The purchases of Swedish government bonds made by the Riksbank over the period 2015–2018 also affect its income. The overall net effect of the government bond holding on the financial result depends on the progression of the repo rate in relation to return on the bonds purchased by the Riksbank. The bond purchases were funded by increased deposits from the banks. The cost for this is determined by the interest rate on the Riksbank's deposits in the form of Riksbank Certificates (the repo rate), fine-tuning operations (the repo rate minus 0.10 percentage points) and deposit facilities (the repo rate minus 0.75 percentage points). The repo rate is currently negative, meaning that deposits from the banks are making a positive contribution to the Riksbank's result. In addition, in 2018, Swedish long-term bond yields fell, increasing the value of the Riksbank's government bonds. If the repo rate rises, the cost of funding the holdings of government bonds will increase, impairing the Riksbank's result. In addition, a higher level of interest rates on the bond market would mean that the value of the Riksbank's Swedish government bonds would decrease.

The buffers in the form of unrealised profits that have been built up in recent years may be utilised if market rates rise and the krona appreciates over the next few years. However, it is important that the Riksbank has sufficient resources to be able to carry out its tasks independently, in all situations. The size of equity is presently deemed to be sufficient for the Riksbank to be able to carry out the complementary monetary policy measures already decided upon and also to adopt further measures without jeopardising the Riksbank's financial independence. However, this is conditional on the Riksbank's continuing ability to make provisions for any increased financial risks.

### *Result measures and seigniorage*

The Riksbank's financial result depends on the return on the Bank's assets, the costs of its liabilities and its operating costs. However, there are several ways of calculating the result of the Riksbank's operations.

The broadest measure of the result can be termed *total result* and describes how the Riksbank's equity (including the financial result for the year and the revaluation accounts) has changed over the year. In 2018, equity increased by SEK 11,839 million. In that equity fell by SEK 2,300 million when the Riksbank made dividend payments to the government over the year, the total result for 2018 amounted to  $11,839 + 2,300 = \text{SEK } 14,139$  million.

The total result can be divided up into different components. For example, a distinction can be made between realised and unrealised results. Realised



results arise, for example, when the Riksbank earns interest on its bank balances and securities, in the sale of previously purchased securities or in the payment of wages. Unrealised results arise when the value of assets that the Riksbank still owns changes, for example if the price of gold changes. Another way of dividing up the Riksbank's result is to separate items relating to interest rates and securities holdings from items relating to gold and currency holdings.

In Table 8, the total result for 2018, that is SEK 14,139 million, has been divided into four parts. The realised result from interest rates and securities amounted to SEK 2,696 million. This includes the Riksbank's interest income and interest expenditure and the net result of all transactions and write-downs relating to securities. It also includes the item 'Other income', which largely consists of dividends on the Riksbank's shares in the BIS and fees from users of the RIX payment system, and costs for personnel, administration and depreciation. The realised result from gold and currency transactions, including write-downs, amounted to SEK 826 million. The unrealised result ensuing from falling interest rates amounted to SEK 3,764 million, while the result relating to changed gold prices and exchange rates was SEK 6,853 million.

**Table 8 Result matrix, SEK million**

	Interest and securities	Gold and currency
Realised result	2,696	826
Unrealised result	3,764	6,853

Source: The Riksbank

The Riksbank's *reported result*, that is the result taken up in the Riksbank's profit and loss account, comprises all the realised results stemming from interest rates and securities transactions as well as from gold and currency transactions. The Riksbank's reported result for 2018 thus amounted to  $2,696 + 826 = \text{SEK } 3,522$  million.

The *result on which the dividend to the State is based* comprises both realised and unrealised results linked to interest rates and securities, but excludes all results relating to gold and currency. In 2018, this result thus amounted to  $2,696 + 3,764 = \text{SEK } 6,460$  million. The size of the dividend itself is derived by calculating the average of this result over the past five years and multiplying it by 80 per cent. A compilation of how the different results relate to each other is presented in Table 9.

### *What is seigniorage?*

The Riksbank's *seigniorage* is the part of the Bank's reported result that arises from the right to issue banknotes and coins. The value of all banknotes and coins in circulation is reported as a liability on the Riksbank's balance sheet. At year-end 2018, this value amounted to SEK 62,181 million. The Riksbank does not pay interest on this liability but incurs costs for managing banknotes and coins. Of the Riksbank's total costs for personnel, administration and

depreciation of SEK 856 million, SEK 156 million were costs for cash provision, that is to say managing banknotes and coins (see the section The profit and loss account and balance sheet by function).

**Table 9 Result measures 2018, SEK million**

	Total	Reported	Basis for dividend
<b>Interest income</b>	<b>8,147</b>	<b>8,147</b>	<b>8,147</b>
<b>Interest expense</b>	<b>-4,622</b>	<b>-4,622</b>	<b>-4,622</b>
<b>Net result of financial transactions and write-downs</b>	<b>460</b>	<b>460</b>	<b>-366</b>
of which, sale of securities	22	22	22
and gold and currency respectively	826	826	-
of which, write-downs of securities	-388	-388	-388
and gold and currency respectively	-	-	-
<b>Net result of changes in value (unrealised result)</b>	<b>10,617</b>	<b>-</b>	<b>3,764</b>
of which, changes in value of securities	3,764	-	3,764
and gold and currency respectively	6,853	-	-
<b>Other income</b>	<b>393</b>	<b>393</b>	<b>393</b>
<b>Total net income</b>	<b>14,995</b>	<b>4,378</b>	<b>7,316</b>
<b>Personnel and administration costs and depreciation</b>	<b>-856</b>	<b>-856</b>	<b>-856</b>
of which, costs for managing banknotes and coins	-156	-156	-156
other costs	-700	-700	-700
<b>Result for the year</b>	<b>14,139</b>	<b>3,522</b>	<b>6,460</b>

Source: The Riksbank

By issuing banknotes and coins the Riksbank can finance assets of the same value, but the Riksbank has no earmarked assets that exactly correspond to the item banknotes and coins. A standard calculation is therefore used when estimating the earnings from these assets. As the stock of banknotes and coins averaged 6.3 per cent of the balance sheet, it is assumed that 6.3 per cent of the earnings come from the assets corresponding to banknotes and coins. Calculated in this way, SEK 369 million of the Riksbank's total interest income from assets of SEK 5,833 million (SEK 8,147 million excluding interest income regarding deposits from the Riksbank's counterparties of SEK 2,314 million) can be said to come from these assets. Similarly, SEK 54 million of the total net result of financial transactions, excluding write-downs, of SEK 848 million can be said to come from the assets corresponding to banknotes and coins. The net amount of the Riksbank's earnings and costs that can be related to banknotes and coins thus amounted to  $369 + 54 - 156 =$  SEK 267 million. It is this sum that is called the Riksbank's seigniorage.



The size of the Riksbank's seigniorage has decreased in recent years, partly due to the fact that the total value of banknotes and coins in circulation has decreased. Seigniorage for the year was however SEK 122 million higher than the corresponding value for the financial year 2017. This higher seigniorage, despite the average proportion of banknotes and coins in the balance sheet having decreased somewhat, can be explained by the Riksbank's interest income and net result of financial transactions, excluding write-downs, being higher than in the previous year.

# BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

## Accounting policies

The balance sheet and the profit and loss account for the Riksbank have been prepared in accordance with the Sveriges Riksbank Act and in accordance with the Rules for Bookkeeping and Annual Accounts at Sveriges Riksbank adopted by the Executive Board on 14 December 2016 (Ref. no. 2016-00854), which came into force on 31 December 2016.

The rules for current recording of transactions refer to the Bookkeeping Ordinance (2000:606) and the rules for annual accounts refer to the Guideline of the European Central Bank on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks (ECB/2016/34). Under Chapter 10, Article 3 of the Sveriges Riksbank Act the Riksbank must apply the accounting guideline of the European System of Central Banks (ESCB) where relevant.

It is the Governing Council at the ECB that decides on the accounting guideline of the ESCB, and the Accounting and Monetary Income Committee (AMICO) reports to the Governing Council on the development, application and implementation of this guideline. In the interpretation of the accounting guideline, consideration shall be given to the guideline's preparatory works, general accounting policies and accepted accounting practice.

The Riksbank deviates from the ESCB' accounting guideline on the following points:

- In the presentation format for the balance sheet, the terms "euro" and "euro area" have been replaced with "Swedish kronor" and "Sweden", because Sweden has not introduced the euro as a means of payment.
- The depreciation period for buildings is 50 years instead of 25 years, as 50 years is considered to better reflect the actual lifetime of the Riksbank's buildings.
- The Riksbank's threshold for capitalising fixed assets is half a price base amount instead of EUR 10,000, justified by the fact that a lower capitalisation limit is considered to give greater control of the Riksbank's fixed assets.
- The pension provision is recorded at the technical value calculated by the National Government Employee Pensions Board, instead of at nominal amount or cost of acquisition. The deviation is justified by the fact that the technical value is considered to give a fairer presentation of the actual pension liability.



- Discounts on discount securities with maturities of over a year at the time of acquisition are amortised on a straight-line basis instead of according to the internal rate of return method. The deviation is justified by the consideration that it provides more transparent reporting of the amortisations, and gives consistent reporting of amortisation for all securities.
- A cash flow statement is presented as part of the Annual Report, which is not a requirement under the ESCB' accounting guideline. The cash flow statement has been prepared guided by the international accounting standard IAS 7, and the deviation is justified by the fact that the cash flow statement provides valuable information regarding primarily the result and change in cash and cash equivalents.

### *Changes in accounting policies*

No changes in accounting policies were made in 2018.

As of 1 January 2019, write-downs on the prices of bonds will be reversed on a straight-line basis against interest income from the date of the write-down, instead of waiting with the reversal until sale or maturity. This change gives a smoother profit and loss reporting account and is an adaptation to a clarification from AMICO regarding reporting price write-downs within the framework of the ESCB' accounting guideline.

### *Fundamental accounting policies*

The following fundamental accounting policies have been applied:

- The accounting shall reflect financial reality and be characterised by transparency.
- The valuation of assets and liabilities and for income recognition shall be carried out prudently.
- Deviations from the accounting policies may only occur if such deviations can reasonably be considered immaterial on the whole in light of the Riksbank's year-end accounts.
- The criteria for measuring balance sheet items and for income recognition must be applied consistently.
- Assessment of assets and liabilities must be made on the assumption of a going concern.
- Income and expenditure shall be recognised as income and expenditure in the accounting period in which they were earned or arose, regardless of when payment is made.
- Assets and liabilities shall be adjusted to take into account events that occur between the end of the financial year and the date the annual accounts are adopted by the Executive Board, provided that these events have affected the value of the assets or liabilities on the closing date.

### *Recognition of assets and liabilities*

Assets and liabilities are only recognised in the balance sheet if it is probable that any future economic benefit associated with the asset or liability item will flow to or from the Riksbank and that substantially all of the risks and rewards associated with the asset or liability have been transferred to the Riksbank.

### *Trade-date accounting*

Foreign exchange transactions and securities transactions are recognised in the balance sheet on the settlement date. Realised gains and losses from net sales are registered on the trade date.

### *Balance sheet valuation rules*

Gold and securities are recorded at the exchange rates and prices applying on the closing date. The exchange rates below are used for revaluation at year-end. In the table below the exchange rates have been rounded off to four decimals.

	31.12.2018	31.12.2017
EUR/SEK	10.1667	9.8422
USD/SEK	8.8750	8.2032
GBP/SEK	11.3193	11.0862
AUD/SEK	6.2514	6.4001
CAD/SEK	6.5028	6.5214
SDR/SEK	12.3230	11.6824
NOK/SEK	1.0331	0.9991
JPY/SEK	0.0809	0.0728

Receivables, balances and liabilities are recorded at their nominal amount. Amounts in foreign currency are translated at the closing rate with the exception of receivables and payables reported under the items ‘Other assets’ and ‘Other liabilities’. These are recorded at the exchange rate on the trade date.

Shares and participations are recorded at cost of acquisition.

Tangible and intangible assets are recorded at cost of acquisition and depreciated according to plan. Buildings are depreciated over a period of 50 years, other fixed assets over 5–25 years. Machinery and equipment, including computers, is depreciated over 3–7 years. Land and art are not depreciated. Payroll expenses attributable to in-house development with respect to IT investments are included in the asset’s cost of acquisition.

### *Repurchase agreements*

Repurchase agreements are reported as loan transactions and therefore do not affect the holdings of securities and gold. A repurchase agreement is an agree-



ment to sell assets, such as securities or gold, whereby the seller simultaneously undertakes to repurchase the assets at a specified price on a specific date in the future.

Assets pledged by the Riksbank as collateral for repos continue to be reported in the balance sheet and are recorded in accordance with the applicable rules for the Riksbank's other holdings of securities and gold. An amount equivalent to the purchase sum received is reported as a liability, while the transferred assets are reported as memorandum items.

Assets received by the Riksbank under reverse repurchase agreements are not reported in the balance sheet because they constitute loan collateral. An amount equivalent to the purchase sum paid is reported as a receivable. The difference between the two payments in a repurchase agreement (spot and forward) is allocated over the term of the agreement.

Transactions carried out within the framework of agreements on automatic repurchase agreements are only reported in the balance sheet if collateral is pledged in the form of cash paid into an account at the Riksbank.

### *Banknotes and coins*

The balance sheet item 'Banknotes and coins in circulation' is equivalent to the nominal value and calculated by deducting from the value of the banknotes and coins received by the Riksbank from the manufacturers both the value of the banknotes and coins included in the Riksbank's depots and the value of the banknotes and coins the Riksbank has destroyed and cancelled. Banknotes and coins in circulation that are no longer legal tender are recognised in the profit and loss account at the latest when they are no longer redeemed by the Riksbank. However, they must be recognised in the profit and loss account earlier if only a small amount is expected to remain to be redeemed and a provision is made at the same time for this amount. Commemorative coins and commemorative banknotes in circulation must be recognised in profit or loss when the issue has been in circulation for more than ten years.

### *Recognition of income*

Realised gains and losses are transferred to the profit and loss account.

Unrealised gains are transferred to a revaluation account in the balance sheet.

Unrealised losses are recognised in the profit and loss account if they exceed unrealised gains that may have been previously posted in the corresponding revaluation account. Unrealised losses recognised in profit and loss may not be reversed in later years to offset new unrealised gains. Unrealised losses in a particular security, a particular currency or gold are not netted against unrealised gains in other security, currencies or gold.

Premiums and discounts on securities purchased are calculated and reported as part of interest income and are written off during the security's remaining time to maturity.

### *Cost of transactions*

With regard to gold, instruments in foreign currencies and securities, the average method is used daily to establish the cost of acquisition of items sold when calculating effects of exchange rates and prices. When acquisitions of currency and gold are netted, the average cost of acquisition for the day's acquisition with regard to each individual currency and gold is added to the previous day's holdings to obtain a new weighted average of the exchange rate or the gold price respectively. To calculate net sales, the realised gain/loss is calculated on the basis of the average cost of acquisition on the previous day for the holding in question.

### *Derivative instruments*

Derivative instruments are recorded contract by contract within each group of derivative instruments. Groups with a positive value are recorded as assets and groups with a negative value as liabilities.

FX forwards are recorded in the amount corresponding to the contract's forward amount multiplied by the difference between closing day rates and trade date rates (spot). The difference between the trade date exchange rate (spot) and the contracted forward exchange rate is allocated as interest over the term of the contract. The currency sold is booked on the trade date, multiplied by the difference between the trade date exchange rate (spot) and the average acquisition rate, as realised gains/losses.

The spot legs of FX swaps are booked on the settlement date at the trade date rate (spot). The forward legs of FX swaps are booked the same way as FX forwards, that is at a value corresponding to the contract's forward amount multiplied by the difference between the closing day rate and the trade day rate (spot). The difference between the trade date exchange rate (spot) and the contracted forward exchange rate is allocated as interest over the term of the contract. Unlike foreign exchange forwards, no net foreign exchange gains/losses arise when recording FX swaps.

Interest rate swaps are booked, for both the incoming and outgoing transactions, at an amount corresponding to the difference between the nominal amount of the contract and the nominal amount translated at the closing day rate. The resulting amount is translated to SEK at the closing day exchange rate.

Gold options are booked on the trade date in an amount corresponding to the premium paid or received. On the closing day the book value is adjusted to a value corresponding to the number of troy ounces in the contract translated at the closing day option price and exchange rate. The option price is calculated on the basis of a recognised calculation model.

Futures contracts are booked daily as realised gains/losses in an amount corresponding to the value calculated in the daily settlement.

# Balance sheet

SEK million

<b>Assets</b>		31.12.2018	31.12.2017
<b>Gold</b>	Note 1	45,981	43,190
<b>Claims on residents outside Sweden denominated in foreign currency</b>			
Receivables from the IMF	Note 2	34,740	28,653
Balances with banks, loans and security investments	Note 3	453,634	436,093
		488,374	464,746
<b>Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor</b>			
Marginal lending facility	Note 4	0	20
		0	20
<b>Securities of residents in Sweden denominated in Swedish kronor</b>	Note 5	392,063	353,874
<b>Other assets</b>			
Tangible and intangible fixed assets	Note 6	653	677
Financial assets	Note 7	522	522
Derivative instruments	Note 8	–	–
Prepaid expenses and accrued income	Note 9	6,730	6,391
Other assets	Note 10	191	217
		8,096	7,807
<b>Total assets</b>		<b>934,514</b>	<b>869,637</b>



<b>Liabilities and equity</b>		31.12.2018	31.12.2017
<b>Banknotes and coins in circulation</b>			
Banknotes	Note 11	59,147	55,215
Coins	Note 12	3,034	2,773
		62,181	57,988
<b>Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor</b>			
Deposit facility	Note 13	422	284
Fine-tuning operations	Note 14	104,099	27,055
		104,521	27,339
<b>Debt certificates issued</b>			
	Note 15	352,203	391,203
<b>Liabilities to residents outside Sweden denominated in Swedish kronor</b>			
	Note 16	112	6,589
<b>Liabilities to residents in Sweden denominated in foreign currency</b>			
	Note 17	254,802	237,905
<b>Liabilities to residents outside Sweden denominated in foreign currency</b>			
	Note 18	2,220	3,481
<b>Counterpart of Special Drawing Rights allocated by the IMF</b>			
	Note 19	27,714	26,273
<b>Other liabilities</b>			
Derivative instruments	Note 20	544	528
Accrued expenses and prepaid income	Note 21	1,640	1,584
Other liabilities	Note 22	51	39
		2,235	2,151
<b>Provisions</b>			
	Note 23	477	498
<b>Revaluation accounts</b>			
	Note 24	67,040	56,423
<b>Equity</b>			
Capital	Note 25	1,000	1,000
Reserves	Note 26	56,487	54,861
		57,487	55,861
<b>Result for the year</b>		3,522	3,926
<b>Total liabilities and equity</b>		<b>934,514</b>	<b>869,637</b>

Memorandum items, see Note 38

## Profit and loss account

*SEK million*

		2018	2017
Interest income	Note 27	8,147	6,015
Interest expense	Note 28	-4,622	-3,091
Net result of financial transactions and write-downs	Note 29	460	321
Fees and commissions income	Note 30	86	79
Fees and commissions expenses	Note 31	-19	-24
Dividends received	Note 32	51	62
Other income	Note 33	275	1,427
<b>Total net income</b>		<b>4,378</b>	<b>4,789</b>
Staff costs	Note 34	-414	-403
Administrative expenses	Note 35	-362	-385
Depreciation of tangible and intangible fixed assets	Note 36	-67	-61
Banknote and coin expenses	Note 37	-13	-14
<b>Total expenses</b>		<b>-856</b>	<b>-863</b>
<b>Result for the year</b>		<b>3,522</b>	<b>3,926</b>

# Cash flow statement

SEK million

<b>OPERATING ACTIVITIES</b>	31.12.2018	31.12.2017
<i>Cash flow from operating activities, profit and loss</i>		
Interest received	7,895	5,825
Interest paid	-4,598	-2,827
Net received from financial transactions	848	1,167
Fees and commissions received	86	79
Fees and commissions paid	-19	-24
Other income	272	123
Administrative expenses paid	-807	-817
	3,677	3,526
<i>Cash flow from operating activities, assets</i>		
Receivables from the IMF	-3,517	1,965
Securities denominated in foreign currency	31,120	-1,534
Securities denominated in Swedish kronor	-34,870	-55,170
Other assets	53	32
	-7,214	-54,707
<i>Cash flow from operating activities, liabilities</i>		
Banknotes and coins in circulation	4,196	-3,101
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	77,182	-117,002
Debt certificates issued	-39,000	170,432
Liabilities to residents outside Sweden denominated in Swedish kronor	-6,477	6,357
Liabilities to residents in Sweden denominated in foreign currency	53	68
Liabilities to residents outside Sweden denominated in foreign currency	-1,971	-7,674
Other liabilities	-1,989	-1,932
	31,994	47,148
<b>Cash flow from operating activities</b>	<b>28,457</b>	<b>-4,033</b>

*The table continues on the next page.*

	31.12.2018	31.12.2017
<b>INVESTING ACTIVITIES</b>		
Acquisition and disposal of tangible and intangible fixed assets	-43	-71
Acquisition and disposal of financial assets	-	-
Dividends received	51	62
<b>Cash flow from investing activities</b>	<b>8</b>	<b>-9</b>
<b>FINANCING ACTIVITIES</b>		
Transfer to the Treasury	-2,300	-2,500
<b>Cash flow from financing activities</b>	<b>-2,300</b>	<b>-2,500</b>
<b>Cash flow for the period</b>	<b>26,165</b>	<b>-6,542</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>18,950</b>	<b>25,426</b>
Cash flow from operating activities	28,457	-4,033
Cash flow from investing activities	8	-9
Cash flow from financing activities	-2,300	-2,500
Exchange rate difference on cash and cash equivalents	736	66
<b>Cash and cash equivalents at end of period</b>	<b>45,851</b>	<b>18,950</b>
<b>Specification of cash and cash equivalents</b>		
	31.12.2018	31.12.2017
Bank accounts, bank lending and reverse repurchase agreements denominated in foreign currency, see Note 3	45,851	18,930
Marginal lending facility	0	20
<b>Total cash and cash equivalents</b>	<b>45,851</b>	<b>18,950</b>

The cash flow statement shows incoming and outgoing payments during the period as well as cash and cash equivalents at the beginning and end of the period. The cash flow statement is divided into payments from operating activities, investing activities and financing activities.

### *Operating activities*

Cash flows attributable to operating activities originate from the Riksbank's core operations. Cash flow from operating activities is based on operating profit. Adjustments are made for items that do not affect cash flow or do not belong to operating activities. In addition, cash flow includes changes that affect cash flow from such balance sheet items as those which are included in operating activities.



### *Investing activities*

Investing activities consist of the purchase and sale of tangible and intangible fixed assets, as well as those shares and participations that are reported under Financial assets. Dividends received from holdings of shares and participations are also included.

### *Financing activities*

Financing activities consist of changes in equity that usually occur through dividends, also known as transfer to the Treasury.



# Notes

*SEK million*

Figures in brackets refer to 2017.

## Note 1 Gold

	31.12.2018	31.12.2017
Quantity		
Troy ounces (million)	4.0421	4.0421
Price		
USD/troy ounce	1,281.7739	1,302.5453
SEK/USD	8.8750	8.2032
Book value	45,981	43,190

As of 31 December 2018 the Riksbank holds 4 million troy ounces (troy/oz) of gold (4), which is equivalent to 125.7 tonnes. No gold was sold in 2018.

## Note 2 Receivables from the IMF

	31.12.2018	31.12.2017
Special Drawing Rights	27,289	24,049
Reserve position in the IMF		
Capital contribution (quota)	54,591	51,753
IMF krona account	-49,498	-50,281
	5,093	1,472
PRG-HIPC lending	-	218
NAB New Arrangements to Borrow	2,358	2,914
Total	34,740	28,653

The Riksbank's holding of Special Drawing Rights amounts to SDR 2,214 million (2,059). An amount corresponding to the total SDR allocated by the International Monetary Fund (IMF) is reported as a liability (see Note 19).

The Riksbank's capital contribution (quota) to the IMF amounts to SDR 4,430 million and is booked net of the IMF's account for Swedish kronor under the item 'Reserve position in the IMF'. The IMF's account in Swedish kronor is a liabilities account that shows how large a share of capital contribution the Riksbank has paid into the IMF by utilising the overdraft facility of this account. Because these items are reported net, only the part of the capital contribution used by the IMF for lending to member countries is reported as a receivable from the IMF.

The item 'PRG-HIPC lending' refers to an interest-free deposit with the IMF as manager of contributions to the IMF's share of the debt relief initiative



HIPC (Heavily Indebted Poor Countries) and to the Fund's concessional lending. The deposit of a total of SDR 18.6 million was repaid on 28 December 2018.

At the close of 2018 the Riksbank's NAB lending amounted to SDR 191 million (249).

At the close of 2018 the Riksbank also had a receivable from the IMF of SDR 12.8 million (12.8) for funds that the IMF may use for interest and credit losses due to delays. The IMF has made deductions from interest payments on the Riksbank's reserve position in the IMF to transfer the funds. The Riksbank has booked these deductions in the profit and loss account. Consequently they are not included as receivables from the IMF on the Riksbank's balance sheet.

### **Note 3 Balances with banks, loans and security investments**

	31.12.2018	31.12.2017
Bank accounts	3,647	128
Bank lending	39,984	15,321
Reverse repurchase agreements	2,220	3,481
Bonds	407,783	416,756
Short-term securities	–	407
<b>Total</b>	<b>453,634</b>	<b>436,093</b>

Bank deposits and securities are issued in euro, US dollars, Pounds sterling, Australian dollars, Canadian dollars, Norwegian kroner and Japanese yen. The distribution is shown in the table below. The securities have been recorded at quoted prices.

	31.12.2018	31.12.2017
Euro	154,947	152,331
US dollars	243,189	229,891
Pounds sterling	19,199	18,121
Australian dollars	21,966	22,523
Canadian dollars	14,332	13,227
Norwegian kroner	1	0
Japanese yen	0	0
<b>Total</b>	<b>453,634</b>	<b>436,093</b>



The distribution of balances with banks and security investments is shown in the table below.

Maturity	Balances with banks	Securities
Up to 1 month	27,409	13,804
Over 1 month, up to 3 months	18,442	15,410
Over 3 months, up to 1 year	–	107,357
Over 1 year, up to 5 years	–	206,436
More than 5 years	–	64,776
<b>Total</b>	<b>45,851</b>	<b>407,783</b>

The Riksbank did not participate in any automatic securities lending programmes in 2018.

#### **Note 4 Marginal lending facility**

This item is used to report overnight loans to banks on their RIX accounts at the Riksbank. Loans are provided against collateral and the lending-facility interest rate during the year has equalled the Riksbank's repo rate plus 75 percentage points.

#### **Note 5 Securities of residents in Sweden denominated in Swedish kronor**

In 2012 the Riksbank started to acquire SEK-denominated securities as a contingency plan to enable future purchases of Swedish securities at short notice, either to secure financial stability or to contribute to a better-functioning transmission mechanism, in the event of a crisis in the financial system. In 2018 the Riksbank, according to a decision by the Executive Board, did not carry out new purchases of government bonds. However, maturities and coupon payments from the government bond portfolio were reinvested. The increase for the year of SEK 38,189 million is mainly explained by reinvestment of bond holdings maturing in the spring of 2019. According to a decision by the Executive Board in December 2017, the large maturities that will occur in the spring of 2019 are to be reinvested starting in January 2018 and run through the first six months of 2019.

The securities have been recorded at quoted prices.

The breakdown of SEK-denominated securities by time to maturity is shown in the table below.

Maturity	Securities
Up to 1 month	–
Over 1 month, up to 3 months	48,797
Over 3 months, up to 1 year	84,796
Over 1 year, up to 5 years	129,034
More than 5 years	129,436
<b>Total</b>	<b>392,063</b>

**Note 6 Tangible and intangible fixed assets**

	31.12.2018	31.12.2017
<b>Land and buildings</b>		
Cost of acquisition, 1 January	612	597
Acquisitions during the year	1	15
Reclassification	-11	-
Divestments during the year	-	-
Cost of acquisition, 31 December	602	612
Acc. depreciation, 1 January	-246	-226
Depreciation for the year	-19	-20
Divestments during the year	-	-
Acc. depreciation, 31 December	-265	-246
Book value	337	366
<b>Machinery and equipment</b>		
Cost of acquisition, 1 January	660	641
Acquisitions during the year	42	56
Reclassification	11	-
Divestments during the year	-21	-37
Cost of acquisition, 31 December	692	660
Acc. depreciation, 1 January	-349	-345
Depreciation for the year	-48	-41
Divestments during the year	21	37
Write-down for the year	-	-
Acc. depreciation, 31 December	-376	-349
Book value	316	311
Total book value	653	677
<b>Tax assessment value</b>		
Buildings	-	-
Land	-	-

The item 'Land and buildings' includes two properties: the head office in Stockholm and the cash provision office in the municipality of Sigtuna (Broby). The properties are classified as special units and are therefore not taxable.

Acquisitions in 2018 include IT applications of SEK 27 million (42).

The item 'Book value, machinery and equipment' includes intangible fixed assets in the form of application systems in an amount of SEK 148 million (145). In 2018, the cost of acquisition with respect to replacing windows was reclassified from buildings to equipment in the amount of SEK 11 million.



## Note 7 Financial assets

	31.12.2018	31.12.2017
<b>Shares and participations</b>		
Bank for International Settlements		
17,244 shares at a par value of SDR 5,000, of which 25% are paid up	441	441
European Central Bank		
Value of participation EUR 9,226,559.46	80	80
SWIFT		
16 shares at a par value of EUR 125	1	1
<b>Total</b>	<b>522</b>	<b>522</b>

Central banks in the European System of Central Banks (ESCB) that are not part of the euro system are obliged to pay in 3.75 per cent of their capital subscription in the ECB. The Riksbank's capital subscription amounts to 2.2729 per cent and the ECB's total subscribed capital amounts to EUR 10,825,007,069.61. The capital subscription is based on the respective country's GDP and number of inhabitants and is calculated every fifth year. The subscription paid is to cover some administration costs of participation in the ESCB. Central banks in the ESCB that are not included in the euro system are not entitled to any allocation of profit from the ECB, and have no obligation to cover any losses in the ECB.

At 31 December 2018, the Riksbank's paid-up subscription amount was EUR 9,226,559.46, which has been unchanged since 1 January 2014. At 1 January 2019, the capital keys were updated, in accordance with the five-year rule above, such that the Riksbank's capital subscription subsequently amounts to 2.5222 per cent and the paid-up subscription amount to EUR 10,238,562.31.

## Note 8 Derivative instruments

Derivative instrument groups with a positive value are reported under this item.

## Note 9 Prepaid expenses and accrued income

	31.12.2018	31.12.2017
Receivables from the IMF	60	33
Bank accounts and bank lending	0	0
Reverse repurchase agreements	5	3
Bonds in foreign currency	2,506	2,469
Derivative instruments	–	–
Bonds in Swedish kronor	4,072	3,813
Fine-tuning operations	5	1
Debt certificates issued	59	60
Other	23	12
<b>Total</b>	<b>6,730</b>	<b>6,391</b>



### Note 10 Other assets

	31.12.2018	31.12.2017
Staff loans	168	196
Accounts receivable	1	2
VAT recoverable	4	5
Balances with banks	18	14
Other	0	0
<b>Total</b>	<b>191</b>	<b>217</b>

### Note 11 Banknotes

Value of banknotes in circulation, by denomination

	31.12.2018	31.12.2017
1,000 krona	3,336	3,494
500 krona	39,474	33,943
200 krona	5,452	6,243
100 krona	3,041	3,008
50 krona	965	981
20 krona	1,034	1,014
Invalid banknotes	5,845	6,532
<b>Total</b>	<b>59,147</b>	<b>55,215</b>

The item 'Invalid banknotes' contains banknotes in circulation that ceased to be legal tender at the end of 2013, in June 2016 and in June 2017. Banknotes that have been invalid for more than ten years are normally written off from the liability for banknotes in circulation. At the same time, a provision is made for the outstanding amount that is expected to be redeemed, and the remainder is recognised as income. The Riksbank may redeem invalid banknotes if there are particular grounds. At the end of 2018, the value of the banknotes that the Riksbank had received but on which it had not yet made a redemption decision was SEK 38 million.

### Note 12 Coins

Value of coins in circulation, by denomination

	31.12.2018	31.12.2017
10 krona	2,136	2,101
5 krona	441	332
2 krona	268	182
1 krona	167	129
Commemorative coins	22	29
<b>Total</b>	<b>3,034</b>	<b>2,773</b>

In 2018 the item 'Commemorative coins' was written off by SEK 3 million (5) referring to an issue of commemorative coins that had become older than ten years, which was recorded in 'Other income', see Note 33.



### Note 13 Deposit facility

Overnight deposits from the banks in their RIX accounts at the Riksbank are reported here. The deposit-facility interest rate has, during the year, equalled the Riksbank's repo rate minus 75 percentage points.

### Note 14 Fine-tuning operations

This item is used to report deposits for the purpose of fine-tuning liquidity in the financial system. The interest rate for fine-tuning deposit operations has, during the year, equalled the Riksbank's repo rate minus 10 percentage points.

### Note 15 Debt certificates issued

This item is used to report the Riksbank's issuance of debt certificates aimed at absorbing liquidity from the financial system. These deposits are done at the Riksbank's most important policy rate, the repo rate, as a rule with a maturity of one week.

### Note 16 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 17 Liabilities to residents in Sweden denominated in foreign currency

As of June 2009 deposits of foreign currency from the Swedish National Debt Office are reported under this item. The deposits were for the purpose of strengthening the foreign currency reserve. The distribution of foreign currency deposits is shown in the following table.

	31.12.2018	31.12.2017
Euro	55,789	53,938
US dollars	199,013	183,967
Total	254,802	237,905

### Note 18 Liabilities to residents outside Sweden denominated in foreign currency

Amounts corresponding to purchase amounts in foreign currency for deposit repos are recorded under this item.

The distribution of foreign currency deposits is shown in the following table.

	31.12.2018	31.12.2017
US dollars	2,220	3,481
Total	2,220	3,481



### Note 19 Counterpart of Special Drawing Rights allocated by the IMF

The Riksbank's liability corresponding to the Special Drawing Rights (SDR) originally allocated by the IMF is reported here. The total allocation is SDR 2,249 million (2,249). The current holding of SDR amounts to SDR 2,214 million (2,059) and is reported under the item 'Receivables from the IMF' (see Note 2).

### Note 20 Derivative instruments

	31.12.2018	31.12.2017
Foreign exchange forwards, USD	–	–18
Foreign exchange forwards, NOK	–	19
	–	1
Foreign exchange swaps, USD	–332	50
Foreign exchange swaps, NOK	876	477
	544	527
<b>Total</b>	<b>544</b>	<b>528</b>

The table above shows the valuation of the Riksbank's derivative instruments broken down by instrument group and currency.

The purpose of outstanding foreign exchange swaps is primarily to convert part of the Riksbank's exposure in US dollars to exposure to Norwegian kroner.

The nominal amounts of the derivative contracts, translated into SEK, are shown in the table below.

	31.12.2018	31.12.2017
Foreign exchange forwards, USD	–	774
Foreign exchange forwards, NOK	–	–773
	–	1
Foreign exchange swaps, USD	26,399	22,706
Foreign exchange swaps, NOK	–25,855	–22,179
	544	527
<b>Total</b>	<b>544</b>	<b>528</b>




**Note 21 Accrued expenses and prepaid income**

	31.12.2018	31.12.2017
Fine-tuning operations	–	–
Debt certificates issued	–	–
Deposit repos	5	2
Derivative instruments	72	47
Deposits, Swedish National Debt Office	1,450	1,440
Counterpart of Special Drawing Rights	50	32
Other	63	63
<b>Total</b>	<b>1,640</b>	<b>1,584</b>

**Note 22 Other liabilities**

	31.12.2018	31.12.2017
Accounts payable – trade	33	23
Other	18	16
<b>Total</b>	<b>51</b>	<b>39</b>

**Note 23 Provisions**

	31.12.2018	31.12.2017
Pension provision	75	82
Banknotes and commemorative coins	400	415
Job Security Foundation	2	1
<b>Total</b>	<b>477</b>	<b>498</b>

The pension provision has been calculated by the National Government Employee Pensions Board (SPV). SEK 75 million (81) refers to PA-91 pensioners with a date of retirement prior to 2003, and SEK 0 million (1) refers to persons who have been granted a partial pension from 2003 onwards or pension compensation prior to the age of 65. As at 31 December 2002 the Riksbank redeemed its pension provision for those persons who on that date were employed by or were entitled to annuity from the Riksbank. The effect of technical revaluations was SEK 2 million in 2018, and has been reported as an increase in the pension liability.

The item ‘Provisions’ also includes SEK 400 million (415) for the estimated future cost of banknotes and commemorative coins written off that the Riksbank still may redeem.

The item ‘Job Security Foundation’ refers to provisions for professional development and competence exchange in accordance with an agreement with the Job Security Foundation.

**Note 24 Revaluation accounts**

	31.12.2018	31.12.2017
Price effect	13,878	10,114
Exchange rate effect	18,977	14,916
Gold value effect	34,185	31,393
Total	67,040	56,423

With effect from 2004, unrealised gains and losses are reported in special revaluation accounts, which consist of the difference between the cost of acquisition value and the market value. At the transition to 2004 it was decided that the cost of acquisition values should correspond to the market values as at 31 December 2003. If the unrealised losses exceed the unrealised gains at the end of the year, the difference is reported in the profit and loss account. This calculation is made security by security and currency by currency.

The price effect consists mainly of unrealised securities gains. When calculating the Riksbank's allocation of profit, the reported profit is adjusted by the difference between the opening and closing value in the price effect.

Out of the total price effect, SEK 9,433 million (6,113) refers to domestic securities.

Exchange rate effects are shown in the following table.

	31.12.2018	31.12.2017
Euro	12,055	9,881
US dollars	1,229	385
Pounds sterling	1,115	759
Australian dollars	1,391	1,984
Canadian dollars	863	891
Special Drawing Rights	866	191
Norwegian kroner	1,458	825
Japanese yen	0	0
Total	18,977	14,916

**Note 25 Capital**

The Sveriges Riksbank Act states that the Riksbank shall have capital in an amount of SEK 1,000 million.

**Note 26 Reserves**

	31.12.2018	31.12.2017
Reserve fund	500	500
Contingency fund	36,191	35,571
Balancing fund	19,796	18,790
Total	56,487	54,861

The Sveriges Riksbank Act states that the Riksbank shall have a reserve fund amounting to SEK 500 million and a contingency fund. The contingency fund and the balancing fund have been used since 1988, according to guidelines for the allocation of the Riksbank's profit adopted that year. The contingency fund



has also been used for entering the amounts of asset write-ups. The amounts written up in the table below have been adjusted in the case of sale and depreciation of the written-up assets. The Riksbank's holdings of gold were written up to market value by SEK 12,686 million on 31 December 1998. Fixed assets were capitalised in the amount of SEK 654 million in the balance sheet in 1994, which equalled the cost of acquisition less depreciation. In 2018 a re-posting was made of SEK 2 million (2) from the sub-item 'Write-up of fixed assets' to 'Other', due to the year's depreciation of the written-up fixed assets. The value of the BIS shares was written up by SEK 235 million in 1996 to correspond to the market value of the gold used as payment for the share allocation in that year.

The above-mentioned allocations and write-ups are shown in the table below:

	31.12.2018	31.12.2017
<i>Allocation of profit since 1988:</i>		
Exchange rate effect	1,649	1,312
Gold value effect	7,356	7,356
Other allocation of profit	18,521	18,238
<i>Write-up of assets:</i>		
Gold reserve	8,604	8,604
Fixed assets	50	52
BIS shares	235	235
<i>Other:</i>	-224	-226
<b>Total</b>	<b>36,191</b>	<b>35,571</b>

The change in the items 'Capital', 'Reserves' and 'Result for the year' is explained in the table below:

	Capital	Reserves	Result for the year
Balance, 31 December 2016	1,000	50,351	7,010
Transfer to the Treasury	–	–	–2,500
<i>Transfer to/from:</i>			
Balancing fund	–	737	–737
Contingency fund	–	3,773	–3,773
<b>Result for the year</b>	<b>–</b>	<b>–</b>	<b>3,926</b>
Balance, 31 December 2017	1,000	54,861	3,926
Transfer to the Treasury	–	–	–2,300
<i>Transfer to/from:</i>			
Balancing fund	–	1,006	–1,006
Contingency fund	–	620	–620
<b>Result for the year</b>	<b>–</b>	<b>–</b>	<b>3,522</b>
<b>Balance, 31 December 2018</b>	<b>1,000</b>	<b>56,487</b>	<b>3,522</b>

**Note 27 Interest income**

	2018	2017
<i>From foreign assets:</i>		
SDR	245	124
Reserve position in the IMF	16	2
NAB (New Arrangements to Borrow)	27	18
Bank accounts	16	2
Bank lending	558	86
Reverse repurchase agreements	135	19
Bonds	4,829	3,611
Short-term securities	2	1
Derivative instruments	0	0
	5,828	3,863
<i>From domestic assets and liabilities:</i>		
Fine-tuning operations	–	–
Marginal lending facility	3	2
Bonds	0	0
Other	4	2
Staff loans	2	3
Negative interest fine-tuning operations	399	504
Negative interest debt certificates issued	1,911	1,641
	2,319	2,152
<b>Total</b>	<b>8,147</b>	<b>6,015</b>

**Note 28 Interest expense**

	2018	2017
<i>From foreign liabilities:</i>		
Deposits, Swedish National Debt Office	–3,684	–2,755
Deposit repos	–126	–15
Counterpart of Special Drawing Rights	–260	–138
Derivative instruments	–327	–113
	–4,397	–3,021
<i>From domestic liabilities and assets:</i>		
Bonds	–225	–70
Fine-tuning operations	–	–
Debt certificates issued	–	–
Deposit repos	–	–
Bank accounts	–	–
Cash depots	–	–
	–225	–70
<b>Total</b>	<b>–4,622</b>	<b>–3,091</b>



### Note 29 Net result of financial transactions and write-downs

	2018	2017
Price effect foreign securities	-366	-26
Price effect domestic securities	-	10
Exchange rate effect	826	337
Gold value effect	-	0
<b>Total</b>	<b>460</b>	<b>321</b>

The price effect for foreign securities includes realised exchange rate gains and exchange rate losses of SEK 22 million (820) and unrealised losses on securities of SEK -388 million (-846) that were recognised in the result for the year due to price write-down of the securities holding.

The exchange rate effect includes realised exchange rate gains and exchange rate losses of SEK 826 million (337). When calculating the Riksbank's allocation of profit, the exchange rate effect is excluded from reported profit.

### Note 30 Fees and commissions income

The item includes annual and transaction charges for the RIX system of SEK 86 million (79).

### Note 31 Fees and commissions expenses

The item mainly consists of custody fees and transaction costs for management of the foreign currency reserve.

### Note 32 Dividends received

In 2018 the Riksbank received a dividend from the BIS of SEK 51 million (62).

### Note 33 Other income

	2018	2017
Reimbursement for the redemption of invalid banknotes	6	5
Unredeemed cash received	22	24
Reimbursement for discoloured banknotes etc.	0	0
Coins written off	-	1,299
Sold for scrap	239	86
Banknotes written off	-	-
Commemorative banknotes written off	-	-
Commemorative coins written off	3	5
Sida (Swedish International Development Cooperation Agency)	2	4
Other	3	4
<b>Total</b>	<b>275</b>	<b>1,427</b>



The coins that became invalid in 2017, and which were returned to the Riksbank, are sold for metal recycling (sold for scrap). In 2018 the sale amounted to SEK 239 million (86). In 2018 the item 'Coins in circulation' was also written off by SEK 3 million (5) referring to an issue of commemorative coins that had become older than ten years.

The income from Sida refers to remuneration for technical assistance to central banks in some developing countries (see the box 'International commitments'.)

#### Note 34 Staff costs

	2018	2017
Salaries and benefits	-249	-242
Salary recorded as assets	0	1
Social security contributions	-78	-76
	-327	-317
Pension premiums	-58	-54
Pension payments	-7	-9
Change in pension provision	7	6
Special payroll tax	-16	-15
	-74	-72
Training	-3	-4
Staff representation	-2	-2
Other	-8	-8
	-13	-14
<b>Total</b>	<b>-414</b>	<b>-403</b>

Pension premiums were paid in accordance with pension agreements for central government employees and others, PA 16.

The item 'Pension payments' refers to payments to pensioners retiring before 2003, and to persons who have been granted a partial pension from 2003 onwards or who have been granted a pension before the age of 65.

Costs for staff representation and internal courses and conferences amount to SEK 2.6 million (1.9).

Salaries and benefits to the members of the Executive Board in 2018 amounted to SEK 14.2 million, broken down as follows:

	2018	2017
Stefan Ingves	2.2	2.0
Kerstin af Jochnick	2.4	2.3
Martin Flodén	2.4	2.4
Per Jansson	2.4	2.3
Cecilia Skingsley	2.4	2.4
Henry Ohlsson	2.4	2.3
<b>Total</b>	<b>14.2</b>	<b>13.7</b>



In addition, the Governor of the Riksbank received a board fee in 2018 of SEK 0.9 million (0.9) from the Bank for International Settlements (BIS). In accordance with a decision of the General Council a deduction is made from the gross salary of the Governor of the Riksbank corresponding to the amount of the board fee from BIS.

The General Council decided on 28 October 2011 that during the statutory qualification period, members of the Executive Board shall receive a full salary for a maximum period of six months following the end of employment. However, deduction will be made for any income from other employment during this period.

The General Council has decided that the Ordinance on Severance Benefits for Certain Employees employed as Senior Government Officials (2003:55) shall be applied for all present Executive Board members.

The General Council has, however, decided on an exception for Stefan Ingves, such that if he receives a pension, before he turns 65 years of age, ensuing from the position he held with the IMF, which he had before he was appointed Governor of the Riksbank, there will be no reduction in the income guarantee. Neither shall the pension from the IMF involve any reduction in his salary, if the pension is paid out during the period in which he receives salary from the Riksbank.

Furthermore, under present arrangements, Stefan Ingves may also receive a pension from the BIS. This is paid to board members who have served on the board of the BIS for at least four years, but only when they have reached the age of 65. The pension is calculated on the basis of the board fees paid, amounting to 1.82 per cent of these fees.

The average number of employees (full-time equivalents, FTEs) and sick leave is reported in the section ‘Organisation and management’.

### Note 35 Administrative expenses

	2018	2017
Information, representation	-7	-18
Transport, travel	-12	-17
Consulting assignments	-39	-46
Other external services	-114	-111
IT operations	-126	-126
Economics prize	-19	-15
Office and property maintenance	-35	-42
Other	-10	-10
<b>Total</b>	<b>-362</b>	<b>-385</b>

Information expenses include costs for the Riksbank’s regular publications, such as the Monetary Policy Reports, the Financial Stability Reports and the Annual Report.

The costs for representation and external conferences under the Riksbank’s auspices were SEK 4.2 million (3.3).



The item 'Transport, travel' includes the cost of the Riksbank's transport of banknotes and coins as well as travel costs.

Consulting assignments amounted to SEK 39 million (46). This amount includes the costs of IT consultants of SEK 21 million (23).

The cost of statistics deliveries of SEK 70 million (61) is the largest single item in 'Other external services'. It refers mainly to remuneration to Statistics Sweden for production of balance of payments statistics and financial market statistics. In addition audit fees to the Swedish National Audit Office and the General Council's auditors are included in the amount of SEK 2 million (2).

The 'IT operations' item includes licensing expenses of SEK 47 million (45) and IT services of SEK 75 million (78).

The 'Economics prize' item includes the prize sum of SEK 9 million (9) and administration costs for the prize of SEK 10 million (5.9).

The largest single items in the cost group 'Office and property maintenance' consist of refurbishment and maintenance of the Riksbank's premises of SEK 7 million (8), and rent of premises of SEK 7 million (7).

### **Note 36 Depreciation of tangible and intangible fixed assets**

This item is used to report scheduled depreciation of tangible and intangible fixed assets.

### **Note 37 Banknote and coin expenses**

The cost of banknotes and coins of SEK 13 million (14) refers to circulation banknotes.

No circulation coins and commemorative coins were bought in 2018 and 2017.

### **Note 38 Memorandum items**

#### **Pledged assets**

At the close of 2018, securities equalling a market value of SEK 2,215 million were pledged in connection with foreign securities repos (3,474).

#### **Contingent liabilities**

Outstanding claims for compensation amounted to SEK 2 million (7) at the close of 2018.

Commitment to provide the Nobel Foundation with funds annually for the award of a prize in economic sciences in memory of Alfred Nobel and also administration expenses for this prize. This commitment amounted to SEK 19 million in 2018 (14.9). Besides the original letter of donation, in 2018 the Riksbank decided to enter an agreement with the Nobel Foundation regarding an additional grant for the Nobel Foundation's costs for the prize, which are expected to amount to SEK 4 million.

A commitment to pay KPA Pensionsförsäkring AB supplementary compensation if so needed as a result of index-linking the pension benefits to which





the insured is entitled. This commitment refers to personnel transferred from the Riksbank to AB Tumba Bruk (now Crane AB) in 1971.

### Contingent assets

At the end of 2018 the Riksbank has no outstanding compensation claims (-).

### Lending and exchange commitments in relation to the IMF

At the end of 2018, the Riksbank's remaining lending and exchange commitment amounted to SEK 228,147 million (220,785), see the table and description below.

	31.12.2018	31.12.2017
<i>Special Drawing Rights</i>		
Contractual commitment (3*allocation)	83,143	78,821
Utilised (SDR holding, see Note 2)	-27,289	-24,049
	55,854	54,772
<i>Reserve position</i>		
Contractual commitment (Quota, see Note 2)	54,591	51,753
Utilised (Reserve position, see Note 2)	-5,093	-1,472
	49,498	50,281
<i>NAB and GAB</i>		
Contractual commitment	27,801	26,355
Utilised (NAB, see Note 2)	-2,358	-2,914
	25,443	23,441
<i>Credit agreement</i>	91,190	86,450
<i>PRGT agreement</i>	6,162	5,841
<b>Total</b>	<b>228,147</b>	<b>220,785</b>

### *Special Drawing Rights*

Under the IMF by-laws the commitment referring to Special Drawing Rights means that the Riksbank, through what is known as designation, may be obliged to buy Special Drawing Rights (SDR) in exchange for foreign currency to such an amount that the Riksbank's total SDR holding is a maximum of 300 per cent of the ordinary allocation, i.e. 3 x SDR 2,249 million. This equals SEK 83,143 million (78,821). This commitment also includes the Riksbank's standing arrangement to, on the IMF's request, buy or sell SDR in exchange for payment in US dollars or euro within an interval of 50 to 150 per cent of the Riksbank's total net allocation of SDR. Because the Riksbank's SDR holding amounts to SEK 27,289 million (24,049), see Note 2, the outstanding commitment amounts to SEK 55,854 million (54,772).



### *Reserve position*

The commitment concerning the reserve position (capital contribution minus the IMF krona account) means that the Riksbank is obliged to exchange the balance in the IMF's krona account to foreign currency if the IMF needs such funds for lending to other countries.

At year-end the balance in the IMF's krona account was SEK 49,498 million (50,281), see Note 2.

### *NAB and GAB*

The commitment concerning NAB (New Arrangements to Borrow) to provide the IMF with a credit facility means that the Riksbank is obliged to lend to the IMF an amount of up to SDR 2,256 million (2,256), which is equivalent to SEK 27,801 million (26,355). Because the Riksbank's NAB lending at year-end amounted to SEK 2,358 million (2,914), see Note 2, the outstanding commitment amounts to SEK 25,443 million (23,441).

This agreement is only activated under special circumstances and is aimed at temporarily strengthening the IMF's lending capacity over and above the funds available under the capital contribution. Within the NAB framework, until 25 December 2018 the Riksbank also had a commitment under the IMF's General Arrangements to Borrow (GAB), but this has ended since the IMF's board has chosen to not decide on a renewed GAB period after this date.

### *Credit agreement*

In April 2017 – after receiving the consent of the Riksdag – the Riksbank signed an agreement on credit to the IMF in the amount SDR 7,400 million, which is equivalent to SEK 91,190 million. In order for the IMF to use the new agreement, the IMF's remaining funds for lending must be less than a lower limit of SDR 100,000 million. In addition, lenders that together hold 85 per cent of the committed loan resources must approve the activation of the agreements.

### *PRGT agreement*

In November 2016 the Riksbank entered an agreement regarding lending to the IMF to a maximum of SDR 500 million, equalling SEK 6,162 million (5,841), under a programme known as the Poverty Reduction and Growth Trust (PRGT). The funds which the Riksbank may lend in the context of the programme may be used by the IMF for lending to low-income countries.

### **Payment agreements**

A commitment to pay the BIS, three months after any demand, the remaining 75 per cent of the nominal amount of the Riksbank's shareholding in the BIS. This commitment amounted to SDR 65 million (65), equivalent to SEK 797 million (755) at the end of 2018.



## **Deposit agreements**

BIS has issued a ‘non-binding credit commitment’, according to which BIS, upon the Riksbank’s request and subject to a specific agreement, may lend foreign currency. This credit commitment was renewed in 2018 and is valid through 25 April 2019.

Agreement with BIS entailing that the Riksbank may, subject to a specific agreement, enter repurchase agreements with BIS regarding securities denominated in US dollars, euros and pounds sterling. This agreement was extended in 2018, and expires on 13 July 2019.

Swap agreement with the ECB implying that the Riksbank, subject to a specific agreement, may borrow euros in exchange for Swedish kronor.

## The profit and loss account and balance sheet by function

The table below shows the Riksbank's net income and expenses by function. The amounts are expressed in SEK million.

Function	2018			2017		
	Net income	Ex-penses	Result	Net income	Ex-penses	Result
Monetary policy	2	-182	-180	3	-185	-182
Financial stability	53	-160	-107	65	-181	-116
Payments	356	-261	95	1,499	-262	1,237
Of which						
<i>Payment system</i>	86	-82	4	79	-71	8
<i>Cash provision</i>	270	-156	114	1,420	-191	1,229
<i>Research and analysis</i>	-	-23	-23	-	-	-
Asset management	3,960	-127	3,833	3,216	-124	3,092
Statistics	0	-104	-104	0	-93	-93
Economics prize and General Council, etc.	7	-22	-15	6	-18	-12
<b>Total</b>	<b>4,378</b>	<b>-856</b>	<b>3,522</b>	<b>4,789</b>	<b>-863</b>	<b>3,926</b>

The breakdown should reflect as closely as possible the actual use of resources for each function. The principle used is for expenses and income to be allocated as far as possible directly to the respective function without use of any cost allocation key.

Payment system expenses are to be financed by fees from participants. Asset management is to generate a return that is as high as possible in relation to the task and the risk taken. For the other functions, there is no cost coverage requirement.

The allocation model is based on the format of the profit and loss account and the balance sheet, where the Riksbank's outcome for 2018 amounts to SEK 3,522 million (3,926) and assets and liabilities to SEK 934,514 million (869,637).

### Allocation of costs

#### *Staff costs, excluding IT personnel*

The actual payroll expense has been used when allocating staff costs for employees directly involved in a function. Payroll expenses for the employees included in the support functions have been allocated according to a cost allo-

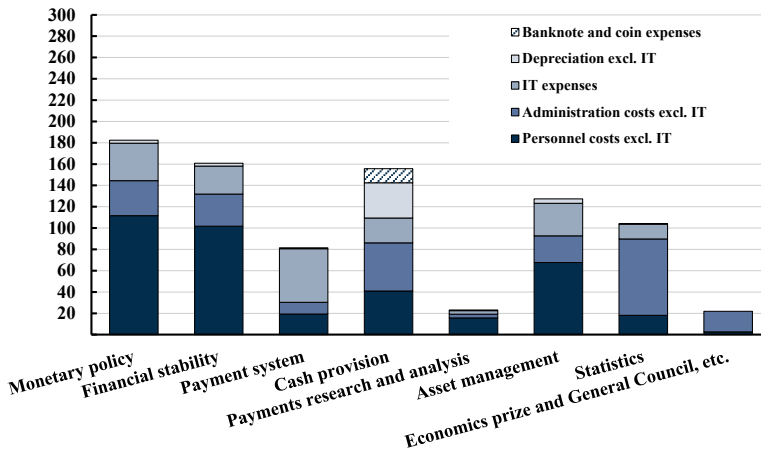
cation key. The most common key is the number of directly involved employees in relation to the total number of directly involved employees in all functions. Altogether about 217 employees, or 66 per cent of the total of 327, are directly involved in one of the functions. The other 110 employees are in support functions, mainly IT, communications and internal services.

### *Administrative expenses, excluding IT expenses*

The Riksbank's process accounting means that administrative expenses are directly allocated by function at the time of registration of invoices.

A large part of the Riksbank's costs are, however, common expenses, such as costs of premises, property maintenance, security and surveillance. These cannot be allocated directly but have been allocated using predefined keys, which usually consist of the number of employees directly involved per function in relation to the total number of directly involved employees in all functions.

**Chart 17 Allocation by nature of expense by function, 2018, SEK million**



Source: The Riksbank

### *Depreciation, excluding IT-related investments*

Depreciation is directly allocated to the function which is supported by the respective facility or allocated on the basis of the number of directly involved employees per function in relation to the total number of directly involved employees.

### *Banknote and coin expenses*

Costs for purchasing banknotes and coins amounted to SEK 13 million (14) in 2018. The costs are allocated in their entirety to the Cash provision function.



### *IT expenses*

IT expenses refer to the costs of the IT operations. These operations are assigned to the Corporate Service Department. The model for allocation of IT expenses is primarily based on the following principles: Expenses for workstations, data storage and basic systems are allocated on the basis of the number of directly involved employees per function in relation to the total number of directly involved employees in all functions. Expenses for application operation of business systems and server operation, and other IT expenses (staff, consultants, licences, etc.) are allocated on the basis of the fixed expense of the business system for application operation divided by the total fixed expense for application operation for all business systems. Depreciation for business systems belonging to one or more functions is allocated directly to each system.

### **Allocation of net income**

Allocation of net income by function has been done from an operational perspective. Income has been allocated to the function with the greatest potential to influence and manage it. Consequently, the fact that seigniorage derives from cash provision has not been taken into consideration. Instead seigniorage income has been allocated to asset management. Seigniorage for 2018 amounted to SEK 267 million (145).

The net income in the Financial stability function mainly consists of dividend from the Riksbank's holding of BIS shares.

The net income for asset management reported in the profit and loss account amounted to SEK 3,960 million (3,216). Total return from the Riksbank's asset management for 2018 was SEK 14,577 million (-674). See also table 6 in the 'Asset management' section of the Administration Report. The difference is explained by the change in the item 'Revaluation account in the balance sheet' (see table below).



	2018	2017
Interest income	8,141	6,010
Interest expense	-4,622	-3,091
Net result of financial transactions and write-downs reported in the profit and loss account	460	321
Fees and commissions expenses	-19	-24
<b>Net income, asset management</b>	<b>3,960</b>	<b>3,216</b>
Net result of financial transactions reported in revaluation accounts in the balance sheet	10,617	-3,890
<b>Total return, asset management</b>	<b>14,577</b>	<b>-674</b>
Net interest earnings on administration	6	5
Income from administration	412	1,568
Cost of administration	-856	-863
<b>Result including income recognised in the balance sheet</b>	<b>14,139</b>	<b>36</b>
Reversal of income recognised in the balance sheet	-10,617	3,890
<b>Reported result</b>	<b>3,522</b>	<b>3,926</b>

Net interest earnings on administration in the table above consists of interest income from the Riksbank's staff loans of SEK 2 million (3) and interest income of SEK 4 million (2) from accounts in Swedish kronor that the Riksbank holds on behalf of other central banks and international organisations.

The net result of financial transactions reported in revaluation accounts in the balance sheet corresponds to the change during the year to the 'Revaluation accounts' item.

### Allocation of assets and liabilities

The table below shows the Riksbank's assets and liabilities by function in millions of kronor.

Function	31.12.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
Financial stability	441	-	441	-
Cash provision	-	62,582	-	58,403
Asset management	933,125	743,581	868,209	688,250
Unallocated	948	128,351	987	122,984
<b>Total</b>	<b>934,514</b>	<b>934,514</b>	<b>869,637</b>	<b>869,637</b>

The assets in the Financial stability function consist of the shareholding in the BIS. The unallocated assets mainly contain tangible and intangible fixed assets and other assets. The unallocated liabilities mainly contain equity, revaluation account and result for the year.

## Five-year overview

The five-year overview presents the balance sheet and profit and loss account restated according to current accounting policies. No restatement has been necessary for the last four years.

### Balance sheet

SEK million

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
<b>ASSETS</b>					
<b>Gold</b>	45,981	43,190	42,412	36,241	37,529
<b>Claims on residents outside Sweden denominated in foreign currency</b>					
Receivables from the IMF	34,740	28,653	29,063	34,115	34,684
Balances with banks, loans and security investments	453,634	436,093	466,970	422,854	414,156
	488,374	464,746	496,033	456,969	448,840
<b>Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor</b>					
Marginal lending facility	0	20	0	–	33
	0	20	0	–	33
<b>Securities of residents in Sweden denominated in Swedish kronor</b>					
	392,063	353,874	298,645	163,762	11,126
<b>Other assets</b>					
Tangible and intangible fixed assets	653	677	667	670	671
Financial assets	522	522	522	522	522
Derivative instruments	–	–	–	–	–
Prepaid expenses and accrued income	6,730	6,391	6,268	4,900	3,323
Other assets	191	217	265	317	357
	8,096	7,807	7,722	6,409	4,873
<b>TOTAL ASSETS</b>	<b>934,514</b>	<b>869,637</b>	<b>844,812</b>	<b>663,381</b>	<b>502,401</b>





	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
<b>LIABILITIES AND EQUITY</b>					
<b>Banknotes and coins in circulation</b>					
Banknotes	59,147	55,215	57,535	68,193	77,887
Coins	3,034	2,773	4,858	5,258	5,337
	62,181	57,988	62,393	73,451	83,224
<b>Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor</b>					
Deposit facility	422	284	198	96	130
Fine-tuning operations	104,099	27,055	144,143	70,826	14,673
	104,521	27,339	144,341	70,922	14,803
<b>Debt certificates issued</b>	352,203	391,203	220,771	143,420	35,004
<b>Liabilities to residents outside Sweden denominated in Swedish kronor</b>					
	112	6,589	232	8,292	1,983
<b>Liabilities to residents in Sweden denominated in foreign currency</b>					
	254,802	237,905	256,723	240,537	228,331
<b>Liabilities to residents outside Sweden denominated in foreign currency</b>					
	2,220	3,481	11,264	–	–
<b>Counterpart of SDR allocated by the IMF</b>					
	27,714	26,273	27,540	26,310	25,504
<b>Other liabilities</b>					
Derivative instruments	544	528	910	1,619	2,905
Accrued expenses and prepaid income	1,640	1,584	1,424	1,174	1,063
Other liabilities	51	39	37	39	64
	2,235	2,151	2,371	2,832	4,032
<b>Provisions</b>	477	498	503	93	112
<b>Revaluation accounts</b>	67,040	56,423	60,313	43,373	53,111



	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
<b>Equity</b>					
Capital	1,000	1,000	1,000	1,000	1,000
Reserves	56,487	54,861	50,351	51,197	52,030
	57,487	55,861	51,351	52,197	53,030
<b>Result for the year</b>	3,522	3,926	7,010	1,954	3,267
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>934,514</b>	<b>869,637</b>	<b>844,812</b>	<b>663,381</b>	<b>502,401</b>

### Profit and loss account

<i>SEK million</i>	2018	2017	2016	2015	2014
Interest income	8,147	6,015	5,829	4,936	4,193
Interest expense	-4,622	-3,091	-2,431	-2,164	-1,761
Net result of financial transactions and write-downs	460	321	4,152	-45	1,631
Fees and commissions income	86	79	53	53	64
Fees and commissions expenses	-19	-24	-17	-18	-15
Dividends received	51	62	44	45	39
Other income	275	1,427	293	34	33
<b>Total net income</b>	<b>4,378</b>	<b>4,789</b>	<b>7,923</b>	<b>2,841</b>	<b>4,184</b>
Staff costs	-414	-403	-403	-379	-361
Administrative expenses	-362	-385	-368	-338	-322
Depreciation of tangible and intangible fixed assets	-67	-61	-54	-51	-62
Banknote and coin expenses	-13	-14	-88	-119	-172
<b>Total expenses</b>	<b>-856</b>	<b>-863</b>	<b>-913</b>	<b>-887</b>	<b>-917</b>
<b>Result for the year</b>	<b>3,522</b>	<b>3,926</b>	<b>7,010</b>	<b>1,954</b>	<b>3,267</b>

# INTERNAL CONTROL

The Executive Board is responsible for the Riksbank's activities and shall ensure that they are conducted efficiently and in accordance with applicable laws, that they are reported in a reliable and fair manner and that the Riksbank is economical with public finances. This is regulated in Chapter 9, Section 1 a of the Sveriges Riksbank Act. The Executive Board shall ensure that the requirements are met with reasonable certainty by ensuring that the Riksbank has a process for internal control that includes risk analysis, control measures, follow-up and documentation. The Executive Board shall, in the Annual Report, provide its assessment of whether internal control has been satisfactory over the period covered by the Annual Report. This is regulated in Chapter 10, Section 3 of the Sveriges Riksbank Act.

## The Executive Board's assessment of the Riksbank's internal control

The Executive Board has assessed whether the Riksbank's internal control in 2018 has met the requirements in the Sveriges Riksbank Act and its conclusion is that the internal control has been satisfactory for the period covered by the Annual Report.

Stockholm, 14 February 2019

Stefan Ingves  
Governor

Kerstin af Jochnick  
First Deputy Governor

Martin Flodén  
Deputy Governor

Per Jansson  
Deputy Governor

Henry Ohlsson  
Deputy Governor

Cecilia Skingsley  
Deputy Governor

ANNEX 1

# The departments of the Riksbank and their tasks

## **Payments Department**

The Payments Department is responsible for the Riksbank's cash provision operations, the RIX payment system for large-value payments in Swedish kronor and the coordination of crisis preparedness in the central payment system. The department also has the task of following up on developments on the payment market and coordinating the analysis of payment issues.

## **Financial Stability Department**

The Financial Stability Department is responsible for analysing the stability and efficiency of the financial system. It provides a basis for decisions made to fulfil the task of promoting a safe and efficient payment mechanism. The department regularly analyses the risks and threats to the stability of the Swedish financial system. In addition, it coordinates the Riksbank's international work.

## **Markets Department**

The Markets Department manages the Riksbank's gold and foreign currency assets. It administers and settles transactions in the management of the Riksbank's financial assets, and regularly evaluates and measures the results and risks in this management. The department conducts monetary and foreign exchange policy operations in accordance with the monetary policy decisions. In addition, the department is responsible for the ongoing monitoring of the markets.

## **Monetary Policy Department**

The Monetary Policy Department is responsible for the economic analysis that provides a basis for the decisions made to meet the price stability target. The department monitors and analyses economic and price developments, and is responsible for financial market and balance of payments statistics. This department also contains the Riksbank's Research Division.



## **Corporate Services Department**

The Corporate Services Department is responsible for the Riksbank's work on IT support, personnel development and recruitment, procurement support, office and property services, transport, security, budget documentation, bookkeeping and payroll administration.

## **General Secretariat**

The General Secretariat coordinates day-to-day operations and supports the Executive Board's governance and control, as well as strategic development of the Bank's activities. The department also provides secretariat services for the General Council, the Executive Board and the Management Group. The General Secretariat coordinates the Riksbank's communications work and work on operational and financial risks. The department also contains functions for data protection, regulatory compliance assurance, information security, business continuity coordination and legal support.

## **Internal Audit Department**

The Internal Audit Department examines and assesses whether risk management and the governance and management processes fulfil their purpose with regard to the objectives established for the Riksbank's activities. The department also contributes to the effectiveness and improvement of these activities.

ANNEX 2

## Consultation work of the Riksbank

Every year, the Riksbank responds to a large number of consultation documents. All consultation responses from the Riksbank have been published on the Riksbank's website ([www.riksbank.se](http://www.riksbank.se)). The heads of department are responsible for handling consultation requests within the department's area of responsibility. The responsibility of the head of department includes providing background information for assessing whether a consultation response should be decided by the Executive Board or the head of department. If the response is to be decided by the Executive Board, the head of department shall present a draft consultation response to the Executive Board. Responsibility for overall coordination and administration of consultation work lies with the General Secretariat.

In 2018, the Riksbank provided over 24 consultation responses in total, concerning, among other matters, supervision in the financial area and proposed measures to strengthen the stability of the financial system. Most consultation responses were issued by the head of the appropriate department.

### **The Executive Board's consultation responses**

Over the year, the Executive Board provided four consultation responses of particular importance. The consultation responses are listed below:

- FI's Pillar 2 requirement for liquidity coverage ratios in individual currencies
- Nordea Bank AB's application for authorisation to execute its merger plan
- The National Debt Office's proposal for guidelines for managing the sovereign debt 2019–2022
- The report 'Guaranteed access to cash' (SOU 2018:42).

For information on the content of the responses, see the Riksbank's website.

ANNEX 3

## The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2018

*The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel for 2018 was awarded to William D. Nordhaus and Paul M. Romer for having integrated climate change and technological development, respectively, into long-term macroeconomic analysis. The laureates' models have helped provide insight into how we can achieve lasting and sustainable economic growth in the world.*

The Sveriges Riksbank Prize in Economic Sciences was established in connection with the Riksbank's 300th anniversary in 1968. In making its donation, the Riksbank committed to giving the Nobel Foundation each year in perpetuity the prize money and an amount of 65 per cent of the prize money to cover the Foundation's expenses for administration and awarding the prize. In 2018 the Riksbank decided to reach an agreement with the Nobel Foundation, in accordance with the decision of the Riksdag, whereby the Riksbank undertakes, amongst other aspects, to provide each year an additional grant due to increased costs for managing the Prize in Economic Sciences. The Government has established the statutes for the prize.

The prize is awarded every year to a person or persons who have produced work of outstanding importance in the field of economic sciences. The Royal Swedish Academy of Sciences selects the prize-winner(s) according to the same principles as for the Nobel Prizes. The prize amount is also the same. This year, the prize money amounted to SEK 9 million. This money is paid by the Riksbank. If there is more than one winner, the prize amount is shared equally between them.

In order to mark the passing of 50 years since the Prize in Economic Sciences was established, jubilee talks regarding the Prize in Economic Sciences were held at the Riksbank on 8 October. The seminar was arranged in cooperation with Nobel Center. Visitors could listen to talks about the significance of the Nobel Prize, and learn more about this year's laureates of the Prize in Economic Sciences.

William D. Nordhaus was born in 1941 in Albuquerque, USA and is currently professor at Yale University, New Haven, USA. Paul M. Romer was born in 1955 in Denver, USA and is professor at NYU Stern School of Business, New York, USA.

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel has been awarded every year since 1969. All of the previous laureates are listed on the Riksbank's website ([www.riksbank.se](http://www.riksbank.se)).

## Glossary

### **Balance of payments**

Statistical report of a country's economic transactions with the rest of the world. Consists of the current account, capital account and financial account. The total is always zero, i.e. the payments are in balance.

### **Banknotes and coins in circulation**

The total amount of banknotes and coins actually in circulation in society outside the Riksbank. A decrease in this amount means that the banks have returned banknotes and coins to the Riksbank and been paid for this via deposits in their accounts in the Riksbank's payment system RIX. The liabilities item banknotes and coins thereby decreases at the same time as the liabilities item in Swedish kronor to the Riksbank's counterparties (deposits via fine-tuning operations or Riksbank Certificates) increases to a corresponding degree.

### **Basel Committee**

Global forum for cooperation on issues relating to bank supervision for supervisory authorities and central banks responsible for financial stability work.

### **Basel III**

International regulatory framework for financial institutions that mainly regulates banks' capital adequacy, i.e. how much capital a bank must hold in relation to the risk it takes, and the way they manage liquidity.

### **BIS, Bank for International Settlements**

Coordinating body for central banks with its headquarters in Basel.

### **Bond**

An ongoing fixed-interest debt instrument that can be issued by a government, municipality, credit market company, mortgage institution, large company, etc. A bond has a maturity of at least one year.

### **Cash Handling Advisory Board**

The Cash Handling Advisory Board was established by the Riksbank in 2006 and is headed up by First Deputy Governor Kerstin af Jochnick. The purpose of the Board is to serve as a forum for discussing issues concerning cash management in society. Besides the Riksbank, the Board is made up of representatives of banks, cash depot companies, cash-in-transit companies, the retail trade and the authorities involved.

### **CCP, central counterparty**

Financial company that acts as an intermediary in financial transactions and assumes responsibility for ensuring that commitments are fulfilled.



**Covered bonds**

Bonds in which the bond holder has collateral in certain assets.

**CPI, Consumer Price Index**

Statistical measure of the price level. The CPI is calculated every month by Statistics Sweden (SCB).

**CPIF, the CPI with a fixed mortgage rate**

See CPI. Unlike the CPI, the CPIF is not directly affected by changes in mortgage rates.

**CPMI, Committee on Payments and Market Infrastructures**

A committee within the Bank for International Settlements (BIS) that was previously known as the Committee on Payment and Settlement Systems (CPSS).

**Currency swaps**

See Swap agreement.

**Deposit facility**

See Standing facilities.

**Derivative instruments**

Financial instrument that entails agreements on commitments and rights at a given future point in time. The value of a derivative instrument is linked to an underlying asset. The most common derivative instruments are options, futures and swaps.

**EBA, European Banking Authority**

Authority that establishes joint regulatory and supervisory standards in the EU and conducts stress tests of European banks.

**ECB General Council**

Consultative body within the European System of Central Banks (ESCB) consisting of the governors from all the EU central banks as well as the President and Vice President of the ECB.

**ECB, European Central Bank**

Joint central bank for the EU Member States that have adopted the euro, with its head office in Frankfurt. The Bank's duties are stipulated in a statute that is part of the EU Treaty.

**Ecofin Council**

The Ecofin Council consists of the economic and finance ministers of all EU countries and is responsible for economic policy, tax issues, financial markets, movement of capital and economic links with countries outside the EU.

**EFC, EU Economic and Financial Committee**

Advisory body to the ECOFIN Council and the European Commission. Monitors, among other things, economic and financial developments in the EU and the euro area.

**ESCB, the European System of Central Banks**

Forum for cooperation between the ECB and the national central banks in all the EU Member States.

**ESRB, European Systemic Risk Board**

Independent EU body responsible for the macroprudential policy of the financial system within the EU.

**Euroclear Sweden**

Swedish central securities depository that holds registers of almost all shares and fixed-income securities denominated in Swedish kronor traded in the Swedish financial markets. Also performs clearing and settlement of transactions with Swedish shares and debt securities.

**Eurosystem**

The Eurosystem consists of the ECB and the national central banks in the EU Member States that have the euro as currency.

**Extraordinary measures**

Measures taken by the Riksbank during the financial crisis to help the banks gain access to liquidity, get the money market to function well and strengthen the impact of monetary policy on the economy.

**Financial markets**

Collective term for the markets where financial assets are bought and sold. The four most important markets are the foreign exchange market, the fixed income market, the stock market and the derivatives market.

**Financial Stability Council**

A discussion forum for matters of financial stability. Representatives of the Government, Finansinspektionen, the Swedish National Debt Office and the Riksbank participate in the Council. The Council meets regularly and discusses questions of financial stability and how imbalances can be counteracted.

**Finansinspektionen (Swedish financial supervisory authority)**

Central government agency with the task of monitoring the activities of banks, credit market companies, securities companies, securities brokers, fund management companies, stock exchanges, authorised marketplaces, clearing organisations, insurance companies and insurance brokers.

**Fine-tuning operations**

Operations that the Riksbank uses to even out fluctuations in the banking system's borrowing or depositing needs with the Riksbank. As a rule, these deposits are made overnight at an interest rate equal to the repo rate minus 0.10 percentage points.



### **FSB, Financial Stability Board**

Coordinates the work of national authorities and international regulatory bodies in the field of financial stability.

### **GDP, Gross Domestic Product**

The value of all goods and services produced in a country to be used for consumption, exports and investment during a period, usually one year or one quarter.

### **IMF, International Monetary Fund**

International organisation that works to ensure the stability of the global financial system and to prevent international financial crises. Monitors and analyses the economic development of the 188 member countries, provides technical assistance and lends money to countries carrying out economic adjustment programmes.

### **IMFC, International Monetary and Financial Committee**

The International Monetary and Financial Committee consists of one representative from each country or constituency in the IMF's board (24 in total). The Committee meets twice a year, when it adopts a communiqué which, in practice (but not formally), establishes the main focus of the IMF's work in the short and medium term.

### **Inflation**

General price increases that lead to a reduction in the value of money, a situation when fewer goods and services can be bought for the same amount of money. Inflation is measured as the change in the CPI and CPIF, for example.

### **Interest rate swap**

See Swap agreement.

### **LCR, Liquidity Coverage Ratio**

Measure of a bank's ability to handle a liquidity outflow over a period of 30 days. In simple terms, an LCR of 100 per cent means that a bank's liquidity reserves are adequate to enable the bank to manage an unexpected liquidity outflow for 30 days without defaulting.

### **Liquidity**

Measure of the ability of a company or organisation to meet its payment obligations in the short term. Also a measure of how quickly it is possible to convert an asset into money.

### **Main operations**

Operations at the repo rate that the Riksbank normally carries out each week. If the banking system has a need to deposit money, the Riksbank issues Riksbank Certificates. If the banking system instead needs to borrow money from the Riksbank, monetary policy repos or loans (against collateral) are used.

**Marginal lending facility**

See Standing facilities.

**MedieAkademin**

Cooperation project between Göteborgs-Posten newspaper, the University of Gothenburg, Forsman & Bodenfors and TNS Gallup (formerly NFO Infratest) that investigates confidence in social institutions, individual companies and the mass media.

**Modified duration**

Measure of how sensitive the value of a debt security is to changes in the interest rate. Expressed as a percentage change in the price of the security if the interest rate falls or rises by one percentage point.

**Monetary policy**

Measures adopted by a central bank to influence the development of the economy and to maintain price stability.

**Monetary policy operations**

The main, fine-tuning and structural operations as well as standing facilities that the Riksbank uses to steer the overnight rate, the shortest market rate on the money market.

**Monetary policy repo**

Main operation in which the Riksbank lends money by purchasing securities from monetary policy counterparties. At the same time, the Riksbank undertakes to sell back these securities on a set date at a slightly higher price, where the difference in price corresponds to the repo rate. The Riksbank then receives back the funds, and the securities are returned to the original owner.

**NBMF, Nordic-Baltic Macroprudential Forum**

An informal group consisting of central bank governors and heads of supervisory authorities in the Nordic and Baltic regions. Meets twice a year. Risks to financial stability, and macroprudential measures for managing risks, are discussed. The chairman since 2018 has been Erik Thedéen of Finansinspektionen.

**NBSG, Nordic-Baltic Stability Group**

A cooperation between the ministries of finance, central banks and supervisory and resolution authorities in the Nordic and Baltic countries. Meets once a year. Focus is on crisis management issues, including regular crisis exercises.

**Net interest income**

Interest income from lending less interest expense for funding and deposits.

**NPL**

Stands for non-performing loans, and refers to loans for which the borrower has ceased to pay the contractual interest and/or loan amortisation. In most



countries, a loan is classed as non-performing if payment is 90 days past due. See also problem loans (below).

**Policy rates**

Interest rates that a central bank sets for monetary policy purposes.

**Price stability**

Condition where the prices of goods and services increase only moderately or not at all. The price stability objective is defined as an increase in the CPIF of 2 per cent.

**Problem loans**

An umbrella term for loans with an elevated probability of credit losses. An example of one type of problem loan is that classed as NPL (see above).

**PSD2**

The second payment services directive (PSD2) is a European framework for the regulation of payment services in the EU/EEA single market. The purpose of the directive includes increasing security in payments, strengthening competition in the field of payment services and promoting innovation in payment services.

**Repo rate path**

The Riksbank's forecast for the repo rate.

**Repo rate**

The Riksbank's most important policy rate, see Main operations.

**Retail payments council**

The Riksbank has established the retail payments council for the purpose of promoting the functioning of the Swedish market for payment services. The council is a forum for consultation and dialogue and its chairperson is Deputy Governor Cecilia Skingsley. Members include both public authorities and private actors.

**Riksbank Certificates**

Main operation, see the section Balance sheet and profit and loss account, note 15.

**Riksdag Committee on Finance**

Parliamentary committee that prepares matters concerning economic issues, including the activities of the Riksbank and the central government budget.

**RIX**

The Riksbank's payment system for large-value payments in real time.

**Settlement**

Final regulation of debt when money or securities are transferred from one party to another, usually payment from one account to another.

**Sharpe ratio**

Measures return per unit of risk. The measurement is calculated by dividing the return in excess of the risk-free rate by the return's standard deviation.

**Staff memo**

Publications for civil servants that include more detailed analyses of issues relevant to the Riksbank. These publications are to be free of policy conclusions and individual stances on current policy issues.

**Standard deviation**

Statistical measure that describes the extent to which the different values for a variable deviate from the mean value.

**Standing facilities**

Banks and certain other financial participants may borrow money from or deposit money with the Riksbank overnight at the repo rate  $\pm 0.75$  percentage points. The interest the counterparty receives when it deposits money with the Riksbank overnight is known as the Riksbank's deposit rate. Correspondingly, the counterparty pays the Riksbank's lending rate if the bank borrows funds from the Riksbank overnight.

**Statistics Sweden**

Central administrative agency for official statistics and other government statistics in Sweden.

**Stress test**

Analysis of different scenarios to assess the resilience of banks, for example, to unexpected and negative events.

**Structural operations**

Operations that, as a rule, have longer maturities than main and fine-tuning operations and are used in order to meet longer-term funding requirements in the financial sector and to adjust the structural position of the Riksbank vis-à-vis the financial sector.

**Swap agreement**

Bilateral agreement to exchange a specific currency or interest rate in return for another currency or interest rate for a predetermined period according to specific conditions.

**SWIFT, Society for Worldwide Interbank Financial Telecommunication**

A Belgian member-owned firm that provides a global network for the secure transfer of financial messages, such as payment instructions, between financial entities worldwide. SWIFT also promotes the standardisation of financial messages. SWIFT has over 11,000 participants in over 200 countries.

**Transmission mechanism**

The process through which monetary policy affects inflation and the economy in general. The process includes interest rate, credit and exchange rate channels.