

Glossary

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Asset-Backed Securities

Bonds that have underlying assets, often in the form of different types of loan, for example mortgages. Such bonds are used to fund so-called securitisation, where a lender sells part of its loan stock to a company especially formed for this purpose.

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.

Bankgirot

Bankgirot is a bank-owned clearing organisation and is the central participant in the mediation of retail payments in Sweden.

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. The regulations were agreed on in 2010 and will be progressively phased in by 2019.

Basel Committee

Global forum for cooperation on issues relating to bank supervision between supervisory authorities and other bodies responsible for financial stability work in Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. Among other things, the Basel Committee draws up international standards, guidelines and recommendations for the regulation of banks.

BIS, Bank for International Settlements

Coordinating body for central banks with its headquarters in Basel. Carries out inquiries and formulates standards for financial activities. BIS also takes deposits from and lends to central banks. The Riksbank is a partner in BIS and is represented on its Board of Directors.

Bond

A fixed-interest debt instrument that can be issued by a government, municipality, credit market company, mortgage institution or large company. A bond has a long maturity, at least one year. The nominal amount of the bond is repaid when the bond matures, and during its term the holder of the bond receives periodic interest payments.

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CEBS, Committee of European Banking Supervisors

An independent organisation founded in 2004 to advise the European Commission on the design of directives in the banking sphere in the EU and to work for the uniform implementation of the directives in the Member States and for greater cooperation and a more extensive exchange of information between the authorities. The CEBS consisted of representatives of supervisory authorities and central banks in the EU and was succeeded in 2009 by the European Banking Authority (EBA).

Central bank

Institution responsible for monetary policy in a country or currency area, i.e. setting an interest rate to maintain price stability. Central banks are usually also responsible for maintaining the stability of the payment mechanism and issuing legal tender. The Riksbank is

Sweden's central bank. In other countries, central banks may also have other duties, such as being responsible for financial supervision or management of the central government debt.

Central counterparty

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

Clearing system

System used to carry out, on behalf of its participants, settlements concerning their financial commitments. Clearing systems are also used by central counterparties or other parties responsible for ensuring that commitments are settled by transferring liquid funds or financial instruments. A clearing system is run by a clearing organisation.

Common Equity Tier 1

Tier 1 capital with a deduction for capital contributions and reserves that may be included in the capital base as Tier 1 capital in accordance with chapter 3, section 4 of the Capital Adequacy and Large Exposures Act (2006:1371).

Countercyclical capital buffers

Reserves of capital that banks are to maintain to protect themselves against losses that may follow a period of excessive credit growth.

Covered bonds

Bonds in which the bond holder has collateral in certain assets. In the case of Swedish covered bonds, these assets may comprise loans provided against collateral in property or public loans.

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 interest rate

Statistical measure of the price level. The CPIF is calculated every month by Statistics Sweden (SCB) on behalf of the Riksbank. Unlike the CPI, the CPIF is not directly affected by changes in mortgage rates. The Riksbank's inflation target is expressed in terms of the annual percentage change in the CPIF.

Currency risk

The risk that the market value of assets, measured in Swedish krona, will fall when the krona strengthens against the currencies that the assets are invested in.

Currency swaps

See Swap agreement.

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Dematerialised

Securities in electronic form.

Denominate

Express something in terms of a given currency, for instance, securities denominated in SEK.

Deposit facility

See standing facilities.

Derivative instrument

Financial instrument that entails agreements on commitments, rights or other prerequisites 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, 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. The goal of the ECB's monetary policy is to maintain price stability in the euro area. The Governing Council is the highest decision-making body of the ECB. It consists of the six members of the Executive Board of the ECB and the governors of the national central banks in the countries that have adopted the euro.

ECB General Council

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

EDP, Excessive Deficit Procedure

Public sector net lending and gross debt according to the EU's convergence criteria, which is reported to the European Commission twice a year.

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 and examines the stability and convergence programmes of the Member States. The central banks are represented in the EFC by their deputy governors.

Eiopa, European Insurance and Occupational Pensions Authority

An EU body since 2011 which is part of the European system for financial supervision and is an independent advisory body to the European Parliament and the Council. Eiopa replaces the former organisation Ceiops.

Emergency liquidity assistance

Measures that a central bank may take to support the ability of one or more financial institutions to meet payment obligations in the short term with the purpose of avoiding a serious disruption in the financial system and strengthening confidence in the payment mechanism.

Esma, European Securities and Markets Authority

Authority that, among other things, works to design the supervision of securities companies and markets with operations in several countries, promote the consistent application of EU regulations among supervisory authorities in different countries and extend cooperation between supervisory authorities in different countries.

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 supervision of the financial system within the EU.

Euroclear Sweden

Subsidiary of Euroclear that holds registers of almost all shares and debt securities traded in the Swedish financial markets. Also performs clearing and settlement of transactions with Swedish shares and debt securities.

Exchange rate or currency exchange rate

Relative value between two currencies, i.e. the price at which one currency can be exchanged for another.

Executive Board of the Riksbank

Six members appointed by the General Council of the Riksbank for terms of office of five or six years. The Executive Board is responsible for the activities of the Riksbank and makes decisions on monetary policy, matters relating to financial stability, market operations and the payment mechanism.

Extraordinary measures

Measures taken by the Riksbank during the financial crisis, for example structural transactions in Swedish kronor, to help the banks gain access to liquidity, ease the workings of the money market and strengthen the impact of monetary policy on the economy.

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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

State in which the financial system can maintain its basic functions and also has resilience to disruptions that threaten these functions.

Financial system

Collective term for a system that covers banks, insurance companies and other financial agents, as well as financial markets and the financial infrastructure in the form of technical systems and the regulations and routines they require to make payments and exchange securities. The financial system also includes the financial regulatory framework in the form of legislation, regulations and other standards.

Finansinspektionen

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 transactions

Transactions that the Riksbank uses to even out fluctuations in the banking system's loan or investment needs with the Riksbank and to keep the overnight rate stable and close to the repo rate. Normally, fine-tuning transactions are carried out in the form of loans (against collateral) or deposits overnight at the repo rate plus/minus 10 basis points.

Foreign exchange policy

Measures that a central bank takes to influence its own exchange rate in relation to other currencies. Also called exchange rate policy. In Sweden, the Government decides whether the exchange rate should be fixed or floating. The Riksbank then has the task of managing the daily policy within the framework of the system decided.

Foreign exchange reserve

See Gold and foreign exchange reserves.

FSAP, Financial Sector Assessment Programs

Programs for the evaluation of authorities, legislation and supervision that the International Monetary Fund (IMF) uses to examine and analyse a country's financial sector. The programs are mandatory for 29 selected countries with systemically-important financial sectors.

FSB, Financial Stability Board

International board that coordinates the work of national authorities and international regulatory bodies in the field of financial stability to highlight vulnerabilities and develop, coordinate and implement international regulations and international supervision.

GDP, Gross Domestic Product

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

General Council of the Riksbank

Eleven members and as many deputies appointed by the Riksdag (the Swedish parliament), with the same mandate period as Members of the Riksdag. Appoints in turn the six members of the Executive Board of the Riksbank, monitors the Riksbank's activities and decides, among other things, on the design of banknotes and coins.

Gold and foreign exchange reserves

Sweden's reserves of gold and securities in foreign currency managed by the Riksbank. This buffer can be used when necessary to defend the value of the Swedish krona and to provide emergency liquidity assistance to solvent banks which encounter difficulties.

Gold price risk

The risk that the market value of the gold reserve will fall as a result of a fall in the price of gold.

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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 185 member countries, provides technical assistance and lends money to countries carrying out economic adjustment programmes.

Interest rate risk

Risk that the value of an interest-bearing security will fall due to a rise in market rates.

Interest rate swap

See Swap agreement.

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. The opposite is deflation.

Inflation measure

Statistical measure of inflation, see for example CPI or CPIF.

Invalidity of banknotes

Declaring banknotes invalid means that these banknotes cease to be legal tender. It is therefore no longer possible to pay using the invalid banknotes. However, the banknotes can be redeemed at the Riksbank as long as the Riksbank assesses that there is no reason to assume that they were acquired by criminal means or that such redemption may conceal the profits of criminal activity.

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 collapsing.

Lending facility

See standing facilities.

Liquidity

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

Macroprudential policy

Measures to discover, monitor and prevent risks in the financial system that threaten financial stability.

Main transactions

Transactions that the Riksbank normally carried out each week. If the banking system has a need to deposit money, the Riksbank caters to this need by issuing Riksbank Certificates. If the banking system instead needs to borrow money from the Riksbank, the Riksbank caters to this through monetary policy repos or loans (against collateral). The interest rate for the monetary policy repos, loans or certificates is called the repo rate, and this signals where the overnight rate should lie during the maturity of the transaction.

Marginal rate

The marginal rate was the Riksbank's policy rate from December 1985 until May 1994. It was replaced in June 1994 by the repo rate, the deposit rate and the lending rate. The marginal rate was determined by the level in the interest rate stairs that the Riksbank applied on a daily basis. Thus, it was a marginal rate of interest at which banks borrowed or deposited funds at the Riksbank.

Medieakademin

Collaboration project between Göteborgs-Posten (a Göteborg-based daily newspaper), the University of Gothenburg, Forsman & Bodenfors and TNS Gallup (previously NFO Infratest). Since 1997, Medieakademin has conducted an annual survey to measure confidence in social institutions, private 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 rises by one percentage point.

Money market

That part of the credit market where instruments with a maturity of less than one year, for example treasury bills and certificates, are traded. One of the most important functions of the money market is to ensure access to liquidity for banks and other financial institutions.

Monetary policy

Measures that a central bank takes to maintain price stability in the economy.

Monetary Policy Counterparty

Credit institution with a registered office or branch in Sweden that is a RIX participant and has access to credit facilities with the Riksbank. All monetary policy counterparties may participate in main and structural transactions and standing facilities. Since October 2008, they may also participate in fine-tuning transactions. Since April 2009, credit institutions that have opted not to participate in RIX may become restricted monetary policy counterparties to gain access to certain monetary policy transactions.

Monetary policy repo

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. The market participants call the Riksbank's repurchase of a security a reverse repo. Prior to the financial crisis in the autumn of 2008, repos were usually carried out every week. Since then, Riksbank certificates have been issued.

Monetary policy transactions

Transactions that the Riksbank has at its disposal to control the overnight rate. These are divided into main transactions, standing facilities, fine-tuning transactions and structural transactions.

Net interest income

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

Netting

The offsetting of obligations between or among participants in the netting arrangement, thereby reducing the number and value of payments or deliveries needed to settle a set of transactions.

NSFR, Net Stable Funding Ratio

Measure of how much stable funding a bank has in relation to its illiquid assets.

Open market operations

Market transactions (buying or selling) in securities by the central bank.

Overnight rate

Interest on a loan from one business day to the next provided by a bank or other financial institution to another bank or financial institution. This is the shortest market rate on the money market and in turn affects the rates charged to the general public and thus also activity and the development of prices in the economy.

Payment system

Accounts, regulations and computer systems needed to execute payments and transfer securities between different parties.

Pillar 2 requirement

The basic capital requirement (Pillar 1) stipulates that a bank, at any one point in time, shall have a minimum capital base equal to the sum of the capital requirements for credit risks, market risks and operational risks. In addition, the capital base shall also cover the capital requirement for additional identified operational risks not captured in Pillar 1, so-called internal capital adequacy assessment (Pillar 2). Pillar 2 is an individual capital requirement that varies between different banks. For Swedish banks, the Pillar 2 requirement is determined by Finansinspektionen. While the Pillar 1 requirement is public and affects the risk-weighted assets, the Pillar 2 requirement is not public as yet and does not affect the banks' risk-weighted assets.

Policy rates

Interest rates that a central bank sets for monetary policy purposes. In Sweden, these are the repo rate and the deposit and lending rates for the banking system; see Repo rate, Fine-tuning transactions and Standing facilities.

Price stability

Condition where the prices of goods and services increase only moderately or not at all. The Riksbank's definition of price stability is that inflation, measured as the annual change in the consumer price index with a fixed interest rate (the CPIF), should be 2 per cent.

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Recession

Slowdown in a country's economic development.

Repo rate

The Riksbank's most important policy rate by which the Riksbank can control the overnight rate with the intention of affecting inflation. The interest rate that the monetary policy counterparties receive when they invest money with the Riksbank by buying Riksbank certificates or pay when they borrow money from the Riksbank through monetary policy repos.

Repo-rate path

Forecast for the repo rate for a number of years ahead which is calculated to lead to the Riksbank attaining its inflation target of two per cent and to contribute to generally strong economic development. The repo-rate path is published at the same time as the Riksbank's decision on the repo rate, which normally takes place six times a year.

Repo transaction

A repurchase agreement similar to a short-term loan in which one party agrees to sell a security to another party in return for liquid funds. At the same time, the parties also agree that the same security will be repurchased at a predetermined price at a certain time in the future. The party that lends the security pays an interest rate equivalent to the difference between the purchase and sale prices.

Resource utilisation

Specifies the extent to which the production resources labour and capital are utilised.

Retail payments

Retail payments is a collective term for payments between private individuals, companies and authorities. They are made in large numbers and make up most of the total number of payments in the economy. Retail payments arise, for example, at points of sale, where buyers and sellers meet directly or in remote payments during, for example, the purchase of goods over the Internet. Other examples include payments of bills, suppliers or wages.

Riksbank certificates

Securities with short maturities issued by the Riksbank for the purpose of absorbing surplus liquidity from the banking system when necessary. When the monetary policy counterparties deposit money with the Riksbank by purchasing Riksbank Certificates, they receive the repo rate. See also main transactions.

Riksdag Committee on Finance

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

Risk-weighted assets

Total assets recorded in the balance sheet and off-balance sheet commitments totalled, valued and risk-weighted in accordance with the prevailing capital adequacy regulations.

RIX, the Riksbank's Payment System

Central payment system that processes payments to and from the banks' accounts with the Riksbank. The Riksbank functions as the banks' bank for payments in Swedish kronor.

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SCB, Statistics Sweden

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

SDR, Special Drawing Rights

Reserve asset created by the IMF for allocation to member countries. The value of the SDR is based on a basket of currencies comprising the US dollar, euro, yen and pound sterling.

Seigniorage

Revenues that a central bank receives on its coins and banknotes. Equivalent to the return on a central bank's assets corresponding to banknotes and coins in circulation less the central bank's total costs for cash management.

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

Measure of a portfolio's risk-adjusted return. Calculated as the portfolio's return in excess of the risk-free rate in relation to its risk measured as a standard deviation.

The SOM Institute

Centre for the survey and seminar activities conducted jointly by the Department of Journalism, Media and Communication (JMG), the Department of Political Science and the Research Centre for the Public Sector (Cefos) at Gothenburg University.

SNS, Centre for Business and Policy Studies

Politically-independent, non-profit organisation made up of opinion-makers and decision-makers in the private and public sectors. The goal of the organisation is to stimulate debate and promote decisions on social issues based on scientific and rational analysis by means of its research, conference and publishing activities.

Standard deviation

Statistical measure that describes the extent to which the different values for a variable deviate from the mean value. If the different values are clustered close to the mean value the standard deviation is low, while values that are spread well over and above the mean value entail a high standard deviation.

Standing facilities

Banks and certain other financial participants may borrow money from or deposit money with the Riksbank overnight at the repo rate plus/minus 75 basis 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.

Stibor, Stockholm Interbank Offered Rate

Average of the interest rates that a number of banks state they can offer each other for collateral-free loans in Swedish kronor. Stibor is determined on a daily basis for eight different maturities and is used as a reference rate in the pricing of various financial contracts in Swedish kronor to an amount equivalent to almost SEK 50,000 billion. Stibor is of great significance for the setting of interest rates in Sweden, the allocation of capital in society and the functioning of the financial markets.

Stress test

Analysis of various scenarios to assess the resilience of banks and households or other entities to unexpected and negative events.

Structural transactions

Transactions that usually have longer maturities than the main and the fine-tuning transactions in order to meet longer-term funding requirements in the banking system and to adjust the structural position of the Riksbank vis-à-vis the banking system. These transactions do not aim to send monetary policy signals.

Sveriges Riksbank Act

The Sveriges Riksbank Act (1988:1385) stipulates the goals and tasks of the Riksbank.

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.

Transmission mechanism

The transmission mechanism is the process through which monetary policy affects inflation and the economy in general. It comprises several different mechanisms that work in conjunction, which are usually described as the interest rate channel, the credit channel and the exchange rate channel.

VaR, Value-at-Risk

Statistical method that describes the maximum potential loss on an investment that may arise with a given statistical certainty (confidence level) during a given period. Used to measure the risk associated with a specific asset or portfolio of assets. The Riksbank applies the confidence level of 99 per cent and the period of ten days.

Yield curve

Curve showing the relationship between interest rates and maturities.

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Was this information helpful? Yes No

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