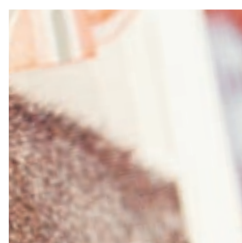
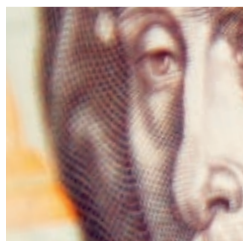
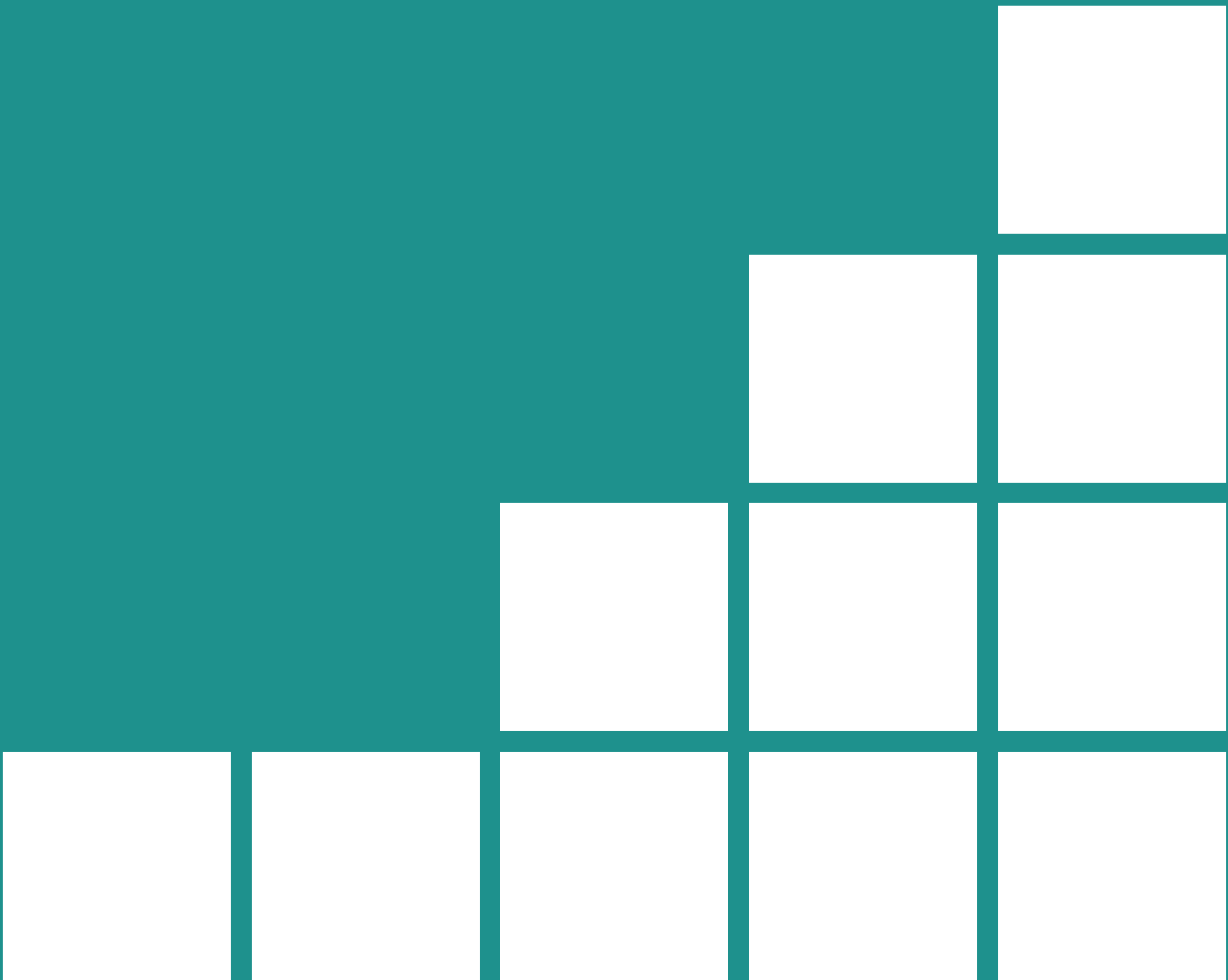


Annual Report 2009





■ The tasks and role of the Riksbank

The Riksbank is Sweden's central bank and a public authority that reports to the Riksdag (the Swedish parliament). The Riksbank is responsible for conducting Swedish monetary policy, with the objective of maintaining price stability. The Riksbank is also entrusted with 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 or, in other words, ensure that inflation is low and stable. This provides a sound basis for favourable and sustainable growth.

The Riksbank has specified an inflation target according to which the annual change in the consumer price index (CPI) is to be 2 per cent. A tolerance interval of ± 1 percentage point has been set around this target to underline the fact that it is not always possible to attain the inflation target exactly.

The Riksbank determines the level of its policy interest rate, the repo rate, to influence inflation. The repo rate affects other interest rates in the economy and ultimately economic activity and inflation.

A safe and efficient payment system – financial stability

The Riksbank has the Riksdag's mandate to promote a safe and efficient payment system. This means that the Riksbank shall act to promote stability in the Swedish financial system as a whole. The mandate also includes issuing banknotes and coins. In addition, the Riksbank provides a system that handles large payments between banks and other actors in a safe and efficient way.

The Riksbank analyses the stability of the financial system on a continuous basis in order to detect, at an early stage, changes and vulnerabilities that could lead to disruptions. The analysis focuses primarily on the major Swedish banks, the functioning of the financial markets and the infrastructure required for an efficient payment system. In a crisis situation, the Riksbank may in certain circumstances provide temporary liquidity assistance to banks.

The Riksbank's independence

The Riksbank is a public authority under the Riksdag. The Riksdag appoints the members of the Riksbank's General Council. 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 Riksdag has given the Riksbank an independent status. This means that the Executive Board of the Riksbank makes the monetary policy decisions without instruction from any other parties. By delegating the task of maintaining inflation at a low and stable level to the Riksbank, the Riksdag has ensured that monetary policy is based on a long-term perspective and that there is a sound basis for the credibility of the inflation target.

Transparency and communication

The Riksbank attaches great importance to being open and clear about the bank's activities. A wide range of external parties must be able to understand what the bank does and why. This increases the credibility of the inflation target of 2 per cent, thus making it easier for monetary policy to be effective. Openness and clarity also create confidence in how the Riksbank assesses and handles the situation on the financial markets. The independent status of the Riksbank also places great demands on the transparency of the bank's activities so that they can be examined and evaluated.

Openness is apparent, for example, in the fact that the Riksbank publishes minutes and background material from the meetings of the Executive Board, as well as the minutes of the monetary policy meetings, on its website. The macroeconomic models that the Riksbank uses in its analyses are also public.

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■ Statement by the Governor

2009 was a turbulent year. It was a year in which the international financial crisis held the Swedish economy in its grip. A dramatic year, which, despite vigorous measures by central banks and other authorities around the world, was characterised by the worst economic recession for many decades. There were signs of a recovery during the latter part of the year, although there was still a lot of uncertainty about the future course of development and the road ahead was lined with risks. Events continued to make great demands on the operations of the Riksbank. This did not, however, stop our endeavours to carry out all our tasks as well and as effectively as possible – to maintain a high level of confidence and live up to our vision of being “among the best”.

After the international financial turmoil of September 2008 had escalated into a global crisis it was necessary in many quarters to dig considerably deeper than usual in economic policy toolboxes. This was also true of the Riksbank.

Extraordinary measures in the wake of the crisis

The financial crisis continued in 2009 and we needed to find new ways to recreate confidence in the financial markets, maintain financial stability and mitigate the negative effects of the crisis on the economy. It was necessary to take some extraordinary measures – measures in addition to the policy we would probably have pursued under more normal circumstances.

When the crisis hit Sweden in earnest we used new tools to get the financial markets to function better, increase the credit supply and try to bring down the various interest rates and risk premiums that were hampering the effectiveness of monetary policy in the economy. We started to lend both kronor and US dollars to the banks at longer maturities than normal. With the help of these loans the Swedish banks could more easily and effectively manage to fund their operations in the short and medium term. To enable us to lend US dollars to the banks, on two occasions we prolonged our swap agreement with the Federal Reserve. We increased the foreign currency reserve to a level that allowed us to improve our preparedness to safeguard stability in the financial markets. Increasing the foreign currency reserve by borrowing via the Swedish National Debt Office proved to be more difficult than expected, so we also made temporary use of our swap agreement with the European Central Bank (ECB). Besides this, we continued to accept several types of security as collateral when banks borrowed money from the Riksbank. We also extended, on various occasions, the circle of our monetary policy counterparties to enable more financial market participants to borrow from the Riksbank, thereby enabling them to manage their liquidity and fund more easily.

Moreover, during the year we cut the repo rate to its lowest level ever since the introduction of the inflation target – 0.25 per cent – and communicated our belief that the repo rate would remain at that

level for a fairly long period. To further strengthen the impact of monetary policy we used supplementary measures to secure the supply of loans in the economy and try to bring down the general level of interest rates even more. We then offered loans to the banks for a term of almost a year at a fixed rate of interest, with the aim of contributing to lower interest rates on loans to companies and households. The offer was later repeated twice; in September and October.

Flexible collaboration between all activities

All these measures meant that the financial system started functioning better and that the mechanisms through which the Riksbank can influence the real economy and inflation were normalised. This illustrates clearly that the dividing lines between our activities are not rigid and that these activities cannot be conducted independently of each other. This becomes particularly evident during crises of the type we are experiencing right now. In 2009 too, the interplay between the Riksbank's macroeconomic assessments and our stability analysis was crucial in enabling our actions to alleviate the effects of the crisis on the economy. This was only possible thanks to flexible collaboration between our activities, particularly those that focus on monetary policy, financial stability and the operative management of the Riksbank's assets.

Our work in managing the effects of the financial crisis was not, however, restricted only to these three areas. We acted both in the international arena and internally in the Riksbank to safeguard the prerequisites for carrying out monetary policy and stability analysis well. Among other things, we continued our strong commitment to the International Monetary Fund (IMF) and the EU framework for strengthening banking sector regulation as regards supervision, capital adequacy and risk management. At the same time, our swap agreements with the central banks of Iceland, Estonia and Latvia supplemented the financial support measures from the IMF and the EU, with the intention of alleviating economic problems in our neighbouring countries. We also started our preparations for connecting our own statistical activities to the ECB's centralised securities database, which will more



Stefan Ingves, the Governor of the Riksbank, in discussion with his speechwriters.

easily provide us with statistics necessary for analysing financial stability. In addition we developed our internal control by laying the foundations for a new risk organisation in which the risk processes are more clearly linked to the business planning process.

Despite the ongoing crisis making great demands of the organisation, in February we launched a new, more modern system of payments between banks and other participants in the financial system. We decided to build a new office for cash management, to modernise the Riksbank's work of handling banknotes and coins and to make it more effective. We have also come some way towards preparing a proposal for a new banknote and coin series that will be modern, environmentally friendly and safe.

Transparency important even in times of crisis

During the year we were also able to mark the tenth anniversary of the Riksbank's formal independence. Increased independence goes hand in hand with increased openness and clarity, what in central bank language is called transparency, which is the basis for evaluation and accountability. Not least during the present crisis, openness and clarity have proved to be important factors in the work of the Riksbank. Since the start of the crisis we have continuously informed the financial market and the general public of its development and the measures we have taken, which contributed to reducing public uncertainty. Follow-ups also show that confidence in the Riksbank continues to be great among different groups in Swedish society. It may also be worth emphasising that even in these times of crisis the Riksbank continues to rank among the most transparent central banks in the world. Our efforts to explain our assessments and intentions clearly were also rewarded in May when we were

awarded the Plain Swedish Crystal, a prize awarded to authorities that use clear and understandable language in their texts.

But we will not content ourselves with these results. With greater transparency comes a greater ambition to live up as far as possible to the requirements made of us, both in our role as public authority and in our dealings with the financial markets and the general public. The world around us is constantly changing, not least as a result of the crisis, which gives rise to new requirements and new expectations. In practice, it means that we as an independent central bank must be constantly developing and improving our ways of working. The decision in April to publish the voting results and any reservations entered in connection with the monetary policy meetings is to be seen in this context as a further step towards increased transparency.

Employees' commitment and competence crucial

The most acute phase of the financial crisis is now hopefully behind us. Despite the fact that we have as yet not come out the other side of the deep economic recession, there is much to indicate that we have at least passed the trough. Even though our extraordinary measures are still needed to guarantee the functioning of the financial system, we are now starting to have time to reflect. We should use this time to learn the lessons of the crisis. We must also finish off what we did not have time to do in the last year due to the crisis and give clear priority to what is important.

We are still, however, living in a time when it is not easy to make plans and forecasts. Consequently, we need to have a flexible approach to our plans and be prepared to change priorities and adapt our work as we go. The responses in this year's employee survey show that we are well equipped to succeed in this. It is mainly the strong commitment of the Riksbank's employees and their high level of competence that have enabled our activities to function so effectively during the uncertainty brought by the crisis. The perception of the majority is also that they work in a well-functioning organisation and under a strong leadership that inspires confidence. However, we still need to invest in more professional development and give our employees the opportunity to grow more, with the help of feedback and individual goals.

I want to thank all employees for their outstanding efforts in the past year and their great confidence in me as head of the Bank's activities. I look forward to our cooperation during yet another interesting year together at the Riksbank.

Stefan Ingves

■ The year at a glance

In 2009 the Riksbank's activities continued to be characterised by the global financial crisis and a deep international recession. The following economic outcomes, measures and events had a great impact on the activities:

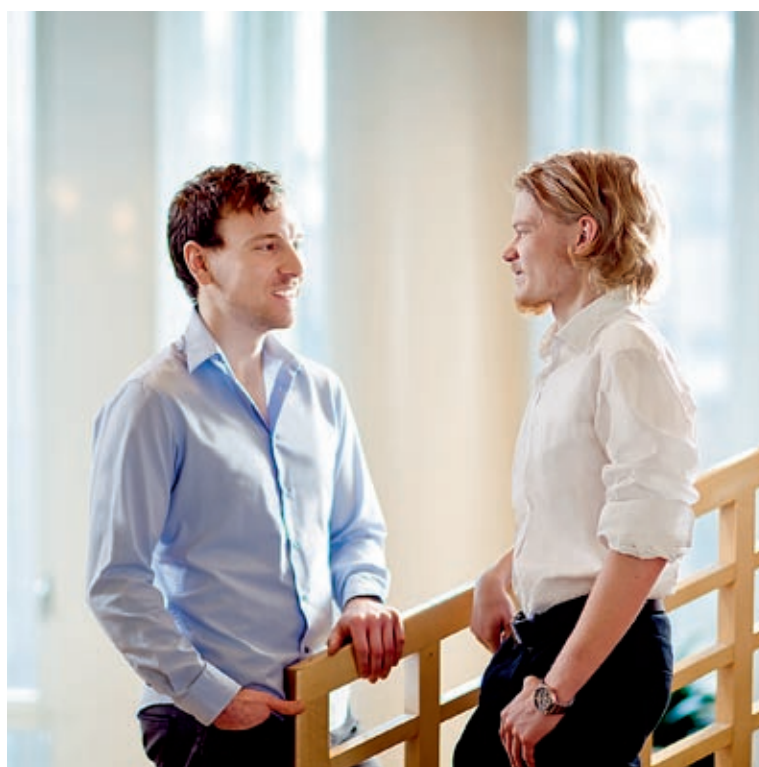
■ The situation in the global financial markets improved during the year, but at its close stability in the financial systems was still dependent on the support measures taken by central banks and authorities around the world. The international recession that followed in the wake of the financial crisis deepened. The fall in the world economy slowed during the year, however, and in the autumn signs were increasing that a recovery was on its way.

■ The Riksbank continued to lend Swedish kronor and US dollars to the banks to supply them with liquidity. The acute liquidity crisis abated, however, in the course of the year, and the need for this type of assistance gradually decreased.

■ In the wake of the financial crisis extensive work has been started to strengthen regulations and supervision in the financial area. The Riksbank participated actively in the work on these issues, both nationally and internationally.

■ The Riksbank cut the repo rate from 2.0 per cent at the beginning of the year to 0.25 per cent at the beginning of July. From July the repo rate was left unchanged at 0.25 per cent. The Executive Board assessed that the repo rate would need to stay at this low level for a long period to dampen the economic downturn and keep inflation close to the target.

■ Monetary policy needed to be supplemented by other tools to achieve its intended effect, since the financial markets were still not functioning normally. Consequently, the Riksbank decided on three occasions to offer the banks fixed rate loans for up to twelve months, totalling SEK 300 billion.



It was considered that the measure could contribute to lower interest rates on loans to companies and households.

*Andreas Svensson
and Björn Örn timer
(IT Department).*

■ Inflation, measured as the change in the consumer price index (CPI), averaged -0.3 per cent during the year. The rate of inflation decreased from 1.3 per cent in January to 0.9 per cent in



In 1998 the Riksdag (Swedish parliament) decided that the Riksbank would be formally independent from 1 January 1999. This meant that the Riksbank's main objective of maintaining price stability was established in law. The Riksbank specified this objective by means of an explicit inflation target according to which the annual change in the consumer price index (CPI) shall be 2 per cent.

December. The decrease is mainly explained by a rapid fall in mortgage rates due to the Riksbank's substantial interest rate cuts, but lower energy prices also contributed. Thus, CPI inflation was far below the 2 per cent target. However, inflation excluding mortgage rates (CPIF) stayed close to the target, averaging 1.9 per cent. Measured as CPIF, the rate of inflation increased from 2.1 per cent in January to 2.7 per cent in December. According to the Riksbank's assessment in December, total output (measured as GDP) in Sweden decreased by 4.3 per cent in 2009 and average annual unemployment rose to 8.5 per cent.

■ At the beginning of February the new technical platform for the RIX payment system was brought into operation. The operational launch went very well, and the system has functioned well since then.

■ The Riksbank's net income was SEK 14.2 billion. Compared with 2008, net income increased by SEK 2.7 billion as a result of increased exchange rate gains and by SEK 0.9 billion as a result of gains from the sale of securities.

■ During the year the Riksbank's publications included three Monetary Policy Reports, three Monetary Policy Updates, one report entitled "Material for Assessing Monetary Policy" and two Financial Stability Reports. In addition, in March a book on the history of the Riksbank was published;

"Pengarna och makten" (The Money and the Power), written by Gunnar Wetterberg on behalf of the Riksbank.

■ The General Council of the Riksbank decided on 30 January to appoint Svante Öberg as First Deputy Governor of the Riksbank and Karolina Ekholm as Deputy Governor.

The year in figures

The Riksbank's net income for 2009 amounted to SEK 14.2 billion, which is an increase of SEK 3 billion compared with 2008. The increase is mainly due to the fact that realised gains from the sale of foreign currency increased by SEK 2.7 billion. In addition to this, realised gains from the sale of securities increased by SEK 0.9 billion during the year.

The market value of the gold and foreign currency reserves increased in 2009 from SEK 220 billion to SEK 313 billion, which is mainly due to the Riksbank strengthening the foreign currency reserve by borrowing foreign currency equivalent to SEK 100 billion.

The value of the Riksbank's assets increased marginally from SEK 700 billion to SEK 709 billion. During the year the Riksbank discontinued its lending in US dollars and increased lending in Swedish kronor and also increased the gold and foreign currency reserves.

Key figures

	2007	2008	2009
At year-end			
Net income (SEK billion)	4.1	11.2	14.2
Gold and foreign currency reserves (SEK billion)	185	220	313
Total assets (SEK billion)	212	700	709
Average number of employees (full-year equivalents)	364	348	351
Repo rate (per cent)	4.00	2.00	0.25
Short-term interest rate (three-month T-bills, per cent)	4.18	1.36	0.20
Long-term interest rate (ten-year government bonds, per cent)	4.35	2.43	3.30
Annual averages			
GDP (calendar-adjusted data, percentage change)	2.7	-0.5	-4.3
Unemployment (per cent)	6.1	6.2	8.5
Inflation, CPI (percentage change)	2.2	3.4	-0.3
Inflation, CPIF (percentage change)	1.5	2.7	1.9

Note: The table states the actual outcome for all items with the exception of GDP and unemployment data for 2009, which are stated according to the Riksbank's forecast from December 2009. CPIF is estimated as CPI with a fixed mortgage rate.

■ Maintaining the value of money – price stability

Average annual inflation measured as the change in the CPI was –0.3 per cent in 2009. The major part of the decrease in inflation was due to the rapid fall in mortgage rates due to the Riksbank's substantial interest rate cuts. Excluding mortgage rates, inflation was 1.9 per cent. The deep international recession that followed in the wake of the financial crisis hit the Swedish economy hard. According to the Riksbank's forecast in December, GDP fell by 4.3 per cent in 2009 and average annual unemployment rose to 8.5 per cent.

Under the Sveriges Riksbank Act, the Riksbank is to maintain price stability. The Riksbank has specified the target for inflation as 2 per cent per year, measured as the annual percentage change in the Consumer Price Index (CPI).

The Riksbank conducts what is known as flexible inflation targeting. This means that the Riksbank conducts monetary policy on the basis that in normal cases the inflation forecast is to be close to the inflation target a couple of years ahead while resource utilisation in the economy does not deviate too much from its normal level. By not bringing inflation back to the target as fast as possible when there is a disruption, the Riksbank can contribute to levelling out fluctuations in the real economy.

The Riksbank influences inflation in Sweden by determining the level of its policy interest rate, the repo rate, and by presenting a forecast for how the repo rate will develop in the next few years. The repo rate determines what the banks have to pay to borrow from the Riksbank or what they receive in return when they deposit funds with the Riksbank. In this way other interest rates in the economy are also affected, and ultimately economic activity and price movements.

It normally takes some time before the Riksbank's changes in the repo rate have a full impact. A common estimate is that the main impact on production and inflation following such a change, takes place within a couple of years. Consequently, it is important that the Executive Board of the Riksbank looks ahead when making repo rate decisions, which means that monetary policy must be based on forecasts.

Monetary policy decision-making processes

Economic reality is complex. The Riksbank therefore uses simplified correlations in its forecasting work in the form of models based on economic experience. These are then combined with assessments made by experts in various fields and by the members of the Executive Board. The Riksbank's forecasts are based on the development of the repo rate over the next few years – the interest rate path – that the Executive Board deems to be the most appropriate given the information available at the time of each repo rate decision.

The Executive Board holds six ordinary monetary policy meetings per year at which it decides on the repo rate. In connection with three of these a comprehensive Monetary Policy Report is published that contains detailed forecasts for the economy and inflation as well as assessments of the repo rate in the period ahead. The three other meetings are accompanied by the publication of a Monetary Policy Update which contains forecasts for the same variables as in the Monetary Policy Report but gives less detailed descriptions of the forecasts. After every monetary policy meeting, the Riksbank publishes a press release and holds a press conference. The press release states whether any reservations were made against the majority assessment of the economic situation or against the repo rate and interest rate path decisions. About two weeks after every monetary policy meeting, the Riksbank publishes the minutes of the meeting.

The Riksbank is also obliged by law to submit a written report on monetary policy to the Riksdag at least twice a year. The first report consists of specific background material for assessing monetary policy compiled for the Riksdag Committee on Finance. The second report is the current Monetary Policy Report. A couple of weeks after the submission of the written reports, the Governor of the Riksbank appears before the Riksdag Committee on Finance to answer questions about monetary policy.

Activities in 2009

In the wake of the financial crisis and the very severe economic downturn, the Riksbank continued to cut the repo rate until summer 2009. In addition the Riksbank took a series of extraordinary measures during the year. On three occasions, in connection with the monetary policy meetings in July, September and October, the Executive Board decided to offer the banks fixed rate loans with up to three years maturity to strengthen the impact of monetary policy. The Riksbank also increased its monitoring of the supply of credit to companies and households. Further steps were also taken towards increased transparency in communication of monetary policy decisions.



Johan Fogel (Financial Stability Department), Lena Löfgren (Monetary Policy Department) and Ulrika Nilsson (Internal Audit Division).

The Riksbank had a high level of preparedness and implemented extraordinary measures

During the year the shocks in the financial markets made it more difficult to implement monetary policy, both in Sweden and abroad. The Riksbank, like other central banks, tackled these problems by taking extraordinary measures.

One problem was that the banks had difficulties in obtaining funding in the securities market – normally an important source of funding. This led to increasing gaps between the policy rate and the market rates encountered by households and companies, the interest rate spread. To allow monetary policy to influence inflation and growth, changes in the policy rate must have an effect on interest rates on credit offered to households and companies. However, market rates remained high even when during the year the repo rate was approaching zero. Hence, changes in the repo rate had less effect than usual.

Consequently, the Riksbank decided to offer the banks loans with longer maturities and to widen the circle of monetary policy counterparties. In the course of the year the number of monetary policy counterparties grew by four so called restricted monetary policy counterparties.

A further complication was that the severe economic downturn that followed the financial crisis meant that the policy rate in Sweden, like in several other countries, started to approach zero, thereby restricting the Riksbank's possibilities of resorting to drastic cuts in the interest rate. One way of conducting a more expansive monetary policy in this situation was to indicate clearly that the interest rate would remain at a low level for a long period. To

augment the credibility of the interest rate forecast and to obtain a better monetary policy impact, the Riksbank accordingly decided to offer fixed-rate loans to the banks with terms of up to twelve months (these loans are also referred to in later parts of the administration report as loans or lending at fixed rates).

The Riksbank also regularly analysed the possibility of implementing further stimulation measures if the necessity should arise. One possibility was that the Riksbank could buy different types of securities, in the first place government bonds with long maturities. Like fixed-rate lending, the main purpose of buying government bonds was to bring down the general interest rate level. However, the Riksbank's assessment on several occasions was that measures taken were sufficient to influence inflation and the real economy in the long term in the desired direction.

The Riksbank increased its monitoring of the supply of credit to companies and households

During the year the Riksbank increased its monitoring of the supply of credit to companies and households and analysed whether there were signs that provision of credit in Sweden had decreased more than was justified by the economic downturn. The analysis showed that in this case too it was very difficult to differentiate clearly between the decline in lending accounted for by the economic situation and the decline accounted for by problems in the credit market. However, the results of the analysis – which was published in Economic Commentary no 8 2009 – gave no support to the hypothesis that there was a serious credit crunch in Sweden. One important reservation was that the analysis took into consideration the fact that the Riksbank and the Government had adopted measures to ensure the functioning of the credit markets. Without the measures implemented by the Riksbank and other government authorities in Sweden the disturbances in the financial system would probably have ultimately led to a serious credit crunch.

As part of its increased monitoring of the credit supply the Riksbank sent out a separate funding survey in March to all the companies that had previously taken part in the Riksbank's company interviews. The funding survey showed that some companies believed that they were not receiving the funding they said they needed and that some forms of funding had become less available. For example, the companies considered that they did not have satisfactory access to funding via corporate certificates and bonds.

The Riksbank's company interviews in May again asked about the companies' funding. A narrow majority of the companies stated at that time that their access to funding had improved in the last quarter compared with the quarter before.

Monetary policy decisions in 2009

10 February The repo rate was cut by 1 percentage point to 1.0 per cent. The repo rate path was adjusted downwards and contained a forecast of a further interest rate cut in 2009.

20 April The repo rate was cut by 0.5 percentage point to 0.5 per cent. The rate was expected to remain at a low level until early 2011.

1 July The repo rate was cut by 0.25 percentage point to 0.25 per cent. The repo rate was expected to remain at this low level until autumn 2010. At the same time

the Executive Board decided to offer the banks loans of up to SEK 100 billion at a fixed rate for twelve months.

2 September The repo rate was left unchanged at 0.25 per cent. The view of the interest rate path was unchanged. As a supplementary monetary policy measure the Riksbank's Executive Board decided to offer the banks further loans of up to SEK 100 billion at a fixed rate for twelve months.

22 October The repo rate was left unchanged at 0.25 per cent. The forecast for the repo rate was also left unchanged. As a supplementary monetary policy measure, the Riksbank's Executive Board decided to offer the banks further loans of up to SEK 100 billion at a fixed rate for eleven months.

15 December The repo rate was left unchanged at 0.25 per cent. The forecast for the repo rate was also left unchanged.

Further step towards increased transparency of communication

During the year the Riksbank took another step towards being more open and clear in its communication. In April the Executive Board decided that the voting figures from the monetary policy meetings would be published together with the monetary policy decisions. If a member had entered a reservation against the decision the press release was to show who this was and how that member had argued his or her position. This step makes it easier for financial market participants and for the general public to understand, already at the time a decision is published, the degree of uncertainty of the Riksbank's forecasts and evaluate the arguments on which various positions were based.

Monetary policy decisions in 2009

From February to early July the Riksbank cut the repo rate from 2.0 to 0.25 per cent. The interest rate path was also revised downwards at each monetary policy meeting of this period. In the second half of the year the repo rate was left unchanged at 0.25 per cent. The Riksbank also announced its

intention to let the repo rate stay at this level for a relatively long period. On three occasions the Riksbank also decided to offer the banks fixed rate loans of up to SEK 100 billion with up to twelve months maturity.

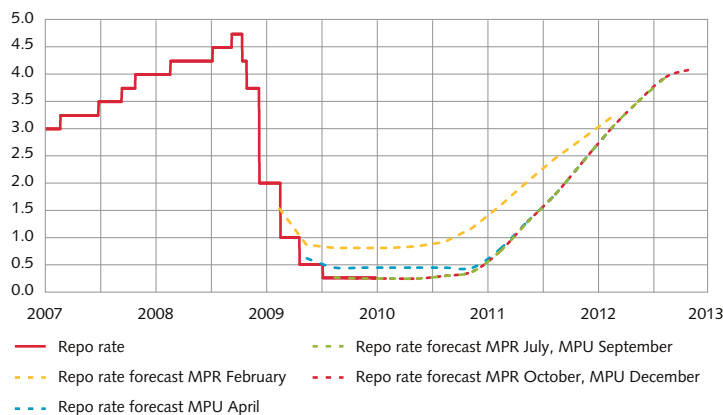
The substantial interest rate cuts and other extraordinary measures were aimed at both dampening the fall in output and employment and attaining the inflation target. CPI inflation fell from 0.9 per cent in December 2008 to a low of -1.6 per cent in September 2009. On average it was -0.3 per cent in 2009. CPI inflation was pressed down by rapidly falling mortgage rates and lower energy prices. Inflation excluding mortgage rates and energy prices was somewhat higher and marginally exceeded the target. According to the Riksbank's forecast in December the gross domestic product (GDP) fell in Sweden by an average of 4.3 per cent (calendar adjusted) in 2009.



The Riksbank's independence mainly builds on the fact that decisions on changes in the interest rate are to be made by an Executive Board consisting of six members who may not seek or receive instructions in matters of monetary policy. The new Executive Board also opted from January 1999 to publish the minutes of its monetary policy meetings in order to increase transparency.

Diagram 1

Repo rate and repo rate forecasts in 2009, per cent

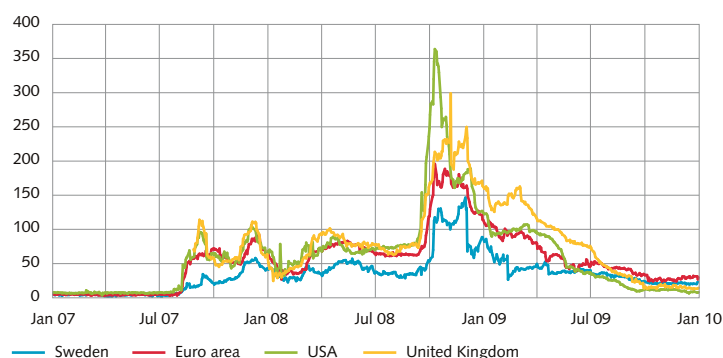


Note: MPR denotes Monetary Policy Report and MPU denotes Monetary Policy Update. The repo rate forecasts from July and September coincide in the diagram and are represented by a broken line. The repo rate forecasts from October and December also by and large follow the same line.

Source: The Riksbank.

Diagram 2

Differential between interbank rates and expected repo rates (basis-spread), basis points

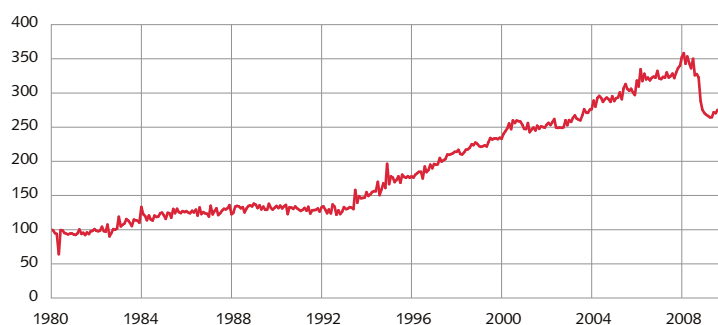


Note: The differential is calculated as the difference between the three-month interbank rate and the three-month overnight index swap rate.

Sources: Reuters Ecowin and the Riksbank.

Diagram 3

Exports of goods at fixed prices, index, seasonally adjusted data



Sources: Statistics Sweden and the Riksbank.

The repo rate was cut and the interest rate path revised downwards in February

At the monetary policy meeting in February the Riksbank cut the repo rate by 1 percentage point to 1 per cent and adjusted the interest rate path downwards. The Riksbank also announced that the repo rate might be cut slightly more in 2009 (see Diagram 1). The sharp cut in the repo rate and interest rate path was deemed necessary to soften the fall in output and employment and to attain the 2 per cent inflation target.

The downturn in the economy both in Sweden and the rest of the world seemed to be even deeper and happen much faster than what had been expected at the end of 2008. The international growth forecasts were revised downwards drastically and GDP was expected to fall in all developed economies in 2009. The forecast of negative growth also applied to Sweden's most important trading partners. Statistics and other indicators also pointed to a severe slump in world trade. In December 2008 world trade fell by almost 10 per cent compared with the same month the year before, which was the greatest downturn since comparable statistics started to be compiled at the end of the 1940s.

However, the situation in international financial markets seemed to have improved somewhat early in the year. The differential between interbank rates and expected policy rates, the basis spread, fell. But the situation was far from normal and the spreads were still high (see Diagram 2). Moreover, the fact that the financial markets were functioning at all was a result of massive support measures on the part of governments and central banks around the world.

The gloomy development in the rest of the world and the severe recession in world trade affected Sweden substantially, since the Swedish economy is heavily export-dependent. Exports accounted for at most about 40 per cent of total demand in Sweden in the first quarter of 2008. In the fourth quarter of 2008 Swedish exports of goods fell by over 10 per cent (see Diagram 3). Indicators of export orders showed a continued sharp fall ahead.

The weakening of the labour market seemed to be more severe than expected at the end of 2008. The number of redundancy notices increased sharply and reached their highest levels since the end of 1992. GDP growth in Sweden was revised downwards for 2009 and 2010 but was revised slightly upwards for 2011. Both CPI inflation and inflation expectations had fallen more than the Riksbank had forecast in December 2008.

The repo rate was cut to 0.5 per cent in April

The world economy had continued to weaken very rapidly. The statistics published after the monetary policy meeting in February showed that the fall in GDP in the world in the fourth quarter of 2008 had been greater than had previously been thought. At the same time, in both the USA and the euro area GDP fell by over 6 per cent, calculated as an annual rate. The fall in US employment in autumn and winter 2008 was the greatest recorded since 1939, when those statistics started to be compiled, and unemployment rose steeply. Inflation fell fast both in the USA and the euro area.

Surveys undertaken in the USA, the euro area and Sweden indicated that corporate credit terms were restrictive, and there was a risk of a serious credit crunch. Consequently, besides substantial interest rate cuts, several central banks also took other measures to facilitate credit supply, apart from the increased lending to the banking system. These measures included purchasing government securities or mortgage-backed assets.

In Sweden too the GDP outcome was weaker than the Riksbank had predicted in February. Statistics showed that GDP had fallen by 2.4 per cent in the fourth quarter of 2008 compared with the previous quarter. Indicators that summarise the situation of the Swedish economy, such as the National Institute of Economic Research's Economic Tendency Indicator and the purchasing managers' index for industry, also indicated unequivocally that developments in the first part of 2009 had been very weak. All in all the outcome and indicators suggested that GDP continued to fall sharply in the first quarter of the year and the GDP forecast for 2009 was consequently revised downwards compared with the Riksbank's assessment in February. The Riksbank therefore estimated that CPI inflation would fall very quickly in 2009, to a great extent due to the rapid interest rate cuts in late 2008 and early 2009.

The Executive Board decided to cut the repo rate to 0.5 per cent at the monetary policy meeting in April. At the same time it was announced that the repo rate was expected to remain low until the beginning of 2011 (see Diagram 1) and that there was some probability of further cuts in the period ahead. At the same time, however, the Executive Board pointed out that when the repo rate is at such low levels it must be borne in mind that this can have negative effects on the functioning of the financial markets. The Executive Board also announced that the Riksbank had the possibility of taking other monetary policy measures if the economy continued to decline more than expected in the future.

Deputy Governor Lars E.O. Svensson entered a reservation against the decision and advocated a cut in the repo rate to 0.25 per cent and a repo rate path in which the repo rate was maintained



Anna Lidberg, Maria Sjödin and Lina Majtorp (Monetary Policy Department).

at that low level for a few quarters into 2010. He argued his position by saying that such a repo rate path would mean a better balanced monetary policy with greater resource utilisation and lower unemployment, without inflation deviating too much from the target.

The repo rate was cut further to 0.25 per cent in July

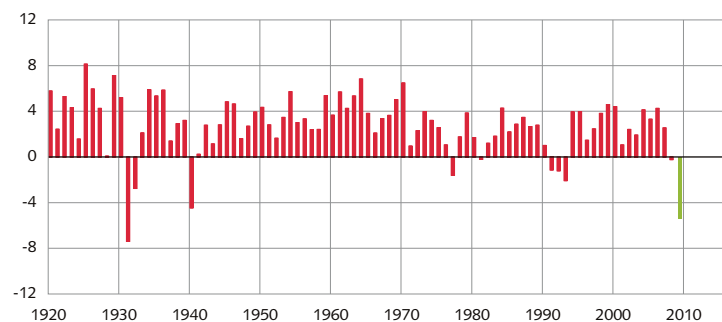
The situation in the financial markets in Sweden and the rest of the world continued to show signs of improvement in the spring. Economic developments in the world were, however, still very weak. Until the turn of the year 2008/09 the world economy had undergone the fastest deterioration since the Second World War and for many countries the fall in GDP continued into the first quarter of 2009. Central banks around the world continued to conduct a very expansive monetary policy by keeping policy rates close to zero. Inflation in the rest of the world continued to fall, mainly as a consequence of lower energy prices.

In the spring there were more indications that the fall in the world economy had been arrested. There were signs of improvement in Asia, above all in China, where extensive fiscal policy initiatives now seemed to have brought results. There were also indications that the fall in the US economy had been mitigated. The severe fall in world trade seemed to have ceased and some stabilisation seemed to have taken place in this area too.

Since the start of the severe downturn, GDP growth had fallen faster in Sweden than in the euro area and the USA. Resource utilisation fell rapidly

Diagram 4

GDP in Sweden, annual percentage change



Note: IMF data up to and including 1950. The green bar refers to the Riksbank's forecast in July 2009.

Sources: IMF, Statistics Sweden and the Riksbank.

to very low levels according to several indicators. Both exports and domestic demand also fell steeply. In June the Riksbank estimated that GDP would fall by over 5 per cent for the full year in 2009, which was more than had been forecast in the Monetary Policy Update in April. GDP had not fallen as much in Sweden since 1940 (see Diagram 4).

The CPI inflation continued to fall in line with the Riksbank's forecast in April, mainly due to a sharp fall in mortgage rates.

In Sweden too there were signs that the decline in the economy had been arrested. Indicators and statistical outcomes showed that consumption growth in the second quarter was somewhat stronger than forecast in April. Export market orders recovered somewhat before the end of June. At the same time various confidence indicators, such as the purchasing managers' index and consumer confidence, also pointed to some recovery. Nevertheless, the levels of most indicators were far below normal and the economic outlook was still uncertain.

All in all, the information available indicated that the downturn in the economy would be somewhat

deeper than was thought in the Riksbank's assessment in April. In view of this, the Riksbank decided that the repo rate and repo rate path should be lower. The repo rate was therefore cut by 0.25 percentage point to 0.25 per cent. The Riksbank had also analysed the question of the repo rate lower limit and assessed that the cut that had been decided did not threaten either the functioning of the financial markets or the inflation target. The new interest rate path meant that the repo rate would remain at the new level for one year ahead. The Riksbank also estimated that after being cut to 0.25 per cent the repo rate had in practice reached its lower limit (see Diagram 1). At the same time the situation in the financial markets was still not normal. As a result, supplementary measures were needed to give monetary policy its intended effect. Consequently the Riksbank's Executive Board decided to offer the banks loans of up to SEK 100 billion at a fixed rate for twelve months. It was deemed that the measure could contribute to lower interest rates on loans to companies and households.

Deputy Governor Lars E.O. Svensson entered a reservation against the decision to cut the repo rate to 0.25 per cent. He advocated a cut in the repo rate to 0 per cent and keeping it at that level for the next year. Such an interest rate path would mean, Svensson believed, a better balanced monetary policy with lower unemployment and higher resource utilisation without inflation deviating too much from the target.

Deputy Governor Barbro Wickman-Parak supported the decision to cut the repo rate to 0.25 per cent, but entered a reservation against the Monetary Policy Report growth forecasts and associated interest rate path. Wickman-Parak had a more positive view of future developments in the economy in the rest of the world and in Sweden. She therefore considered that the repo rate could be raised earlier than was shown in the forecast in the Monetary Policy Report main scenario.



The 2 per cent inflation target was introduced as early as in 1995. At that time the Riksbank's inflation forecasts were based on an assumption of a constant repo rate. In 2005 the Riksbank started to forecast inflation under the assumption that the repo rate follows expectations in the money market. At the same time the forecast horizon was prolonged from two to three years.

The interest rate path was kept unchanged in both September and October

After the decision in July there were an increasing number of signs of an economic turnaround. The financial crisis abated, which was reflected by the credit spreads having narrowed in most places; for example the USA and the euro area. At the same time both outcome and indicators of future economic growth had stabilised or pointed upwards in most regions. Asian economies in particular had clearly started to grow in the second quarter. The Riksbank's forecast for growth in the world economy was therefore revised upwards somewhat both for 2009 and for the coming years. The world economy, however, was nevertheless expected to contract by about 1 per cent in 2009, which would mean very weak economic development in historical terms (see Diagram 5).

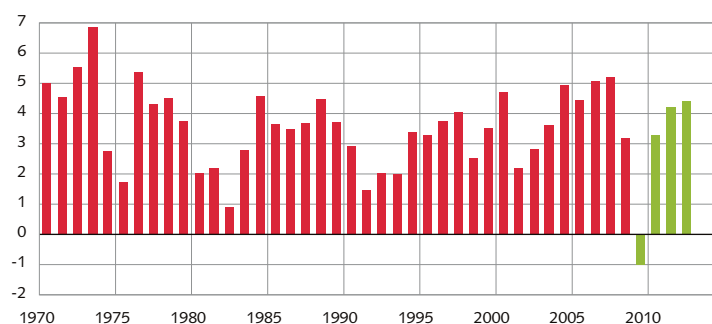
Newly received data on the Swedish economy showed that the recovery had continued, but many indicators were still far from what could be described as normal levels. The National Institute of Economic Research Business Tendency Survey for August showed, for example, that companies in private service industries and manufacturing industry still stated that the situation was very weak. Households, however, had become more optimistic about the future according to the Consumer Tendency Survey. The retail trade and car sales also showed positive development in the summer. The purchasing managers' index suggested that the situation in industry had steadily improved over the past months. On the whole Swedish indicators followed those of the rest of the world, though the purchasing managers' index, for example, had risen somewhat faster in Sweden in the last months. All in all the indicators of development in the third quarter showed that recovery could be somewhat faster than had been expected in July. At the same time resource utilisation was very low and the labour market was weak.

The annual percentage change in the CPI for July was -0.9 per cent; somewhat lower than expected. The lower outcome was mainly due to mortgage rates falling more than expected. In September the annual percentage change for the CPI was -1.6 per cent, while CPIF inflation was 1.4 per cent. The outcomes for the CPI and CPIF were somewhat lower than the Riksbank had forecast in September. According to the Riksbank's forecast in September and October underlying inflation measured in terms of CPIF would lie just under 2 per cent in 2009–2012. CPI inflation would rise rapidly and be just under 4 per cent towards the end of the forecast period. This was explained by the fact that mortgage rates would stop falling and start rising again as the Riksbank raises the repo rate.

The Riksbank decided to leave the repo rate unchanged at 0.25 per cent at the monetary policy meetings in September and October. The assessment was that the repo rate needed to stay at its

Diagram 5

GDP growth in the world, annual percentage change



Note: The green bars represent the Riksbank's forecast in October 2009.

Sources: The IMF and the Riksbank.

low level until autumn 2010 to support recovery in the Swedish economy and to achieve the inflation target (see Diagram 1). The Riksbank also believed that supplementary measures were needed to give monetary policy its intended effect. The Riksbank accordingly decided at both meetings to offer the banks further loans of up to SEK 100 billion at a fixed rate for twelve and eleven months respectively. This would contribute to keeping interest rates on loans to companies and households low. The low repo rate, together with the economic upturn in the rest of the world, was expected to promote positive GDP growth in Sweden towards the end of the year. As the economy recovered the repo rate would be raised relatively fast to more normal levels in 2011 and 2012.

Deputy Governor Lars E.O. Svensson entered a reservation against the majority decision at the two monetary policy meetings, and advocated a cut in the repo rate to 0 per cent and a lower repo rate path, so that the repo rate could be kept at this level for a year ahead. Svensson considered that such a repo rate path meant a better balanced monetary policy with lower unemployment, higher resource utilisation and CPIF inflation closer to the target, without giving rise to problems for the functioning of the financial markets or financial stability.

At both meetings Deputy Governors Lars Nyberg and Barbro Wickman-Parak supported the decisions to keep the repo rate unchanged at 0.25 per cent. However, they entered reservations against the growth forecasts in the Monetary Policy Update and Monetary Policy Report, respectively, and the associated repo rate path. Their argument for their positions included a more positive view of how developments in the financial markets could come to affect the economy both in the rest of the world and in Sweden. Consequently the repo rate would need to be raised somewhat earlier than had previously been forecast. Nor did they consider that the economy needed to be stimulated by another fixed rate loan to the banks.

The Riksbank's research in 2009

The aim of the Riksbank's research is to develop models and tools for the analyses that the Executive Board needs to make its decisions. The researchers employed by the Riksbank also work as internal advisors for the analytical work of the bank. The research increases the bank's capacity to meet the challenges that arise in the work of keeping inflation low and stable and safeguarding financial stability.

The Riksbank's research is mainly focused on areas of significance to the Riksbank's activities, such as monetary policy, the banking system and financial markets. The activities also include developing analysis models, like in many other central banks.

The results of the Riksbank's research are published in international scientific journals, which guarantees its quality. They

are also distributed through presentations at seminars and conferences.

The researchers also analyse topical issues such as monetary policy with a zero interest rate, uncertainty intervals around interest rate paths and the significance of house prices for the general development of the economy. The article "Monetary policy when the interest rate is zero", published in the second issue of Sveriges Riksbank Economic Review, can be mentioned in this context. The article discusses how monetary policy can be conducted when the policy rate is approaching the zero level. The article's authors also specifically examine the range of measures to stimulate the economy that are at the disposal of a central bank when the interest rate weapon is not available.

The effects of the financial crisis on the world's economies during the year raised many important questions concerning the structure of financial systems and their links to the real economy. At the beginning of November the Riksbank therefore arranged an international conference on the theme "Financial markets and the macroeconomy: challenges for central banks". Leading researchers discussed how financial markets and banks can be realistically introduced into macroeconomic models and what links exist between financial stability and monetary policy. They also exchanged ideas on how central banks can best manage economies with long-term low interest rates and deflation risks, and discussed what lessons learned from the Nordic banking crisis of the 1990s can provide guidance today.

At the October meeting First Deputy Governor Svante Öberg also entered a reservation against another fixed rate loan in view of the fact that the situation in the financial markets had improved and considering the proposed term of the loan. However, he supported the decision to leave the repo rate and repo rate path unchanged.

The interest rate path was kept unchanged in December as well

Recovery from the deep recession continued in the autumn. The world economy continued to improve, world trade rose and the financial markets functioned better and better. Growth in Asia was also strong in the third quarter. The Riksbank's forecasts for growth in the world economy were therefore revised upwards somewhat in December, both for 2009 and for 2010.

Indicators for the fourth quarter taken together pointed to somewhat stronger GDP growth in Sweden compared with the October forecast. To this was added stronger world recovery, combined with the expectation that domestic demand would be stronger. Households and companies were more optimistic about future developments and consumption increased. The forecasts for Sweden's GDP in 2010 were therefore revised upwards somewhat, and the economy was expected to be stronger as exports increased. The recovery would be from a very low level, however, implying that there would be plenty of unutilised resources in the economy in the following years.

The assessment in December showed that developments in the labour market would be less weak than was forecast in October. But employment was still expected to fall and unemployment to rise in 2010.



By law the Riksbank should also promote stability in the Swedish financial system as a whole. The Riksbank's overall analysis and assessment of financial stability has been published regularly since 1997 in the Financial Stability Report. The report has contributed to a more structured and focused analysis of the risks in the financial sector.

As a consequence of the weak labour market it was estimated that wages would increase more slowly going forward. This would contribute to low inflationary pressure in the following years.

At the same time inflationary pressure was also dampened by lower rents, lower inflation in the rest of the world and a stronger krona. The inflation forecast for the coming years was therefore revised downwards somewhat.

At the monetary policy meeting in December the Executive Board of the Riksbank decided to leave the repo rate unchanged at 0.25 per cent. The forecast for the repo rate was also left unchanged. The Executive Board assessed that it was still appropriate to keep the repo rate low for a long period to encourage the upturn in output and employment while at the same time achieving the inflation target.

At the monetary policy meeting Deputy Governor Lars E.O. Svensson entered a reservation against the decision and advocated a cut in the repo rate to 0 per cent and a repo rate path of 0.25 per cent less than the interest rate path of the main scenario up to and including the third quarter of 2010. He maintained that such a repo rate path would mean a better balanced monetary policy with lower unemployment, higher resource utilisation and CPIF inflation closer to the target, without giving rise to problems for the functioning of the financial markets or financial stability.

At the meeting Deputy Governors Lars Nyberg and Barbro Wickman-Parak supported the decision to keep the repo rate unchanged at 0.25 per cent but entered a reservation against the repo rate path in the Monetary Policy Update. Their arguments for their positions included having a somewhat more positive view of the prospects for growth. In addition they considered that the state of the economy at the end of 2009 had started to normalise. Further, they assessed that the repo rate would need to be raised earlier than the proposed interest rate path indicated and that this did not need to be as steep during the remaining forecast period.

Follow-up

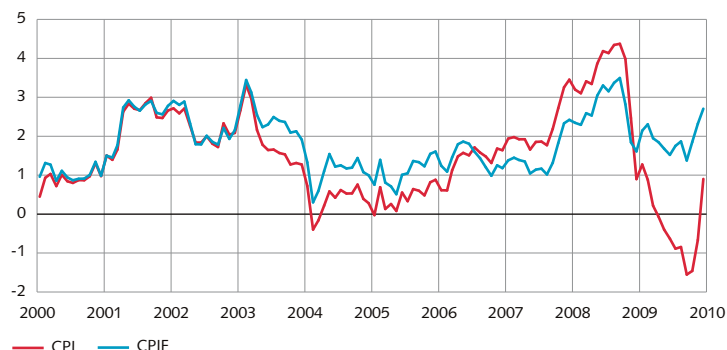
The Riksbank's monetary policy is evaluated by the Riksdag Committee on Finance. The Riksbank compiles a written report entitled "Material for Assessing Monetary Policy" for this evaluation, which is published after the first Monetary Policy Report of the year. The report for 2007–2009 will be submitted to the Riksdag in March 2010.

Inflation 2009

CPI inflation fell rapidly in 2009 and was well below the inflation target (see Diagram 6). A large part of the decrease is explained by the substantial cuts in the repo rate during the year, which pushed down mortgage rates. Lower energy prices also contributed to the fall in inflation.

Diagram 6

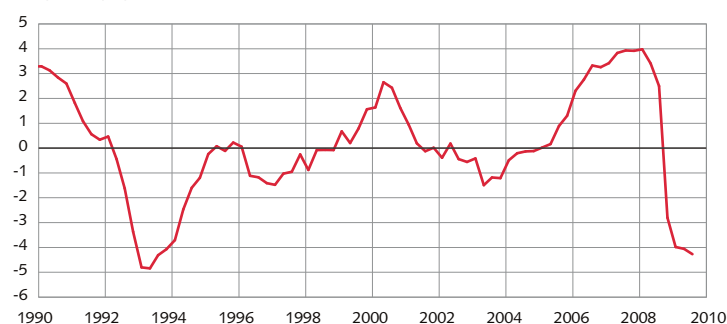
CPI and CPIF, annual percentage change



Source: Statistics Sweden.

Diagram 7

Output gap, per cent



Note: GDP deviation from trend using the Hodrick-Prescott filter.

Sources: Statistics Sweden and the Riksbank.

Table 1

Comparison between different measures of inflation, annual percentage change

	Annual average		
	2007	2008	2009
CPI	2.2	3.4	-0.3
CPIF	1.5	2.7	1.9
CPIF excluding energy	1.6	2.0	2.3

Note: The data for 2009 refers to the Riksbank's forecast from December 2009.

Sources: Statistics Sweden and the Riksbank.

On average over the year CPI inflation was -0.3 per cent, which can be compared with 3.4 per cent in 2008 (see Table 1). The underlying inflation also fell in comparison with the previous year. Measured in terms of the CPIF, which is the CPI with a fixed mortgage rate, underlying inflation was 1.9 per cent in 2009. The CPIF excluding energy prices rose by 2.3 per cent in 2009. Measured as the difference between CPI and CPIF the effect of the interest rate changes was -2.2 percentage points.

Development of the real economy in 2009

In 2009 GDP decreased by 4.3 per cent (calendar adjusted) according to the Riksbank's forecast in December. Unemployment rose by more than 2 percentage points to just over 8.5 per cent at the end of 2009.

Various measurements of resource utilisation are often used as an overall measurement of the development of the real economy. One such measurement is the output gap, which measures the percentage deviation of GDP from its long-term level (see Diagram 7). If the gap is positive, this means that the activity level in the economy is high and that GDP is higher than its long-term level. The opposite applies when the gap is negative. During the year the output gap measured in this way was -4 per cent, which was approximately the same size as the negative gap that arose in the crisis of the 1990s. Other measurements of resource utilisation give a similar picture.

The fall in output and subsequent weak resource utilisation are explained by the severe downturn in the international economy in the wake of the financial crisis. As a result of this downturn, Swedish exports also fell sharply. However, with the decline in exports, excess capacity in industry grew, and investments decreased substantially. The decrease in investments is also an important reason behind the considerable fall in GDP during the year.

Inflation under target after sharp interest rate cuts and lower energy prices

In 2009 the economy was affected by disturbances of the type that are in general very difficult to predict. Given the serious economic situation in 2009, according to the Riksbank there were no other roads to take for monetary policy than that of reducing the interest rate rapidly and sharply. Both low resource utilisation and falling inflation supported this. But the interest rate cuts pushed down mortgage rates, which in turn pushed down CPI inflation. According to economic theory, however, this is a temporary effect. In the longer term the interest rate cuts will contribute to keeping inflation in line with the target. The CPIF, which is underlying inflation measured in the same way as CPI with fixed mortgage rates, was far nearer the inflation target. Even disregarding movements in energy prices, underlying inflation was close to the target.

Statistics

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. The Riksbank is responsible for statistics concerning the balance of payments, the financial markets, turnover on money and bond markets as well as interest rates and foreign currencies.

The statistics on both the financial markets and the balance of payments are produced and published on behalf of the Riksbank by Statistics Sweden (SCB). However, the Riksbank is responsible for the quality, content and development of the statistics.

The Riksbank collects and publishes turnover statistics on a daily basis from primary monetary policy counterparties and counterparties in foreign exchange transactions. In addition, interest rates and exchange rates are compiled and published daily on the Riksbank's website.

A major part of the work in 2009 was characterised by an increased need for

statistical data as a consequence of the financial crisis. This applied to both financial market and balance of payments statistics and statistics on the turnover on the financial markets. Continued collaboration with Statistics Sweden on development work will, however, be needed in several areas in order to meet these increased needs. For example, the Committee on Finance has requested a more detailed breakdown of the overall official statistics of banks' lending to non-financial companies. In response to this the Riksbank participated together with Statistics Sweden in a closed hearing at the Committee on Finance in November 2009.

When every EU country has adapted its national statistics to the European standard for financial market statistics it will be easier to satisfy the data needs that were identified during the crisis. Within the framework of this work the Riksbank decided during the year that the forms for collecting data for financial market

statistics are to be changed. The decision was a result of a review that was initiated together with Statistics Sweden in 2008 in order to investigate the possibilities of improving and simplifying the forms.

Another measure that the Riksbank is currently looking into is to set up a Swedish securities database by participating in the work on the ECB's Central Securities Database (CSDB). The data that may become accessible through this database should be possible to use in statistics production and in financial stability work. This will make statistics more reliable and reduce the work of those reporting data, while making it easier to access data that has been in demand during the financial crisis.

Moreover, in 2009 work continued on adapting statistics to coming changes in the international standard for the balance of payments. The Riksbank is conducting the project in collaboration with Statistics Sweden.

■ A safe and efficient payment system

During the year the Swedish financial system continued to be affected by the international financial crisis. The problems had mainly to do with the credit risks that emerged when the world economy deteriorated as a consequence of the crisis. Even though the financial system gradually became less dependent on the central banks' measures for their liquidity supply and lending capacity, the Riksbank continued to provide several facilities to ensure that the system functioned. At the same time, the activities of the Riksbank became increasingly focused on the reformation of the regulatory framework and supervision of financial markets. At the beginning of February the new technical platform for the RIX payment system was brought into operation and since then has been working well. The Riksbank also decided to build a new office for cash management, to modernise and make the work of handling banknotes and coins more effective.

The Riksbank has the Riksdag's mandate to promote a safe and efficient payment system. 'Payment system' is a broad term and in practice covers the entire financial system. One of the important tasks of the system is to convert savings to loans that can be used for investments, consumption and house purchases. The system should also manage financial risks and provide payment services. The major banks are particularly important to the financial system.

For the financial system to work in a safe and efficient way, it is also required to have a well-functioning infrastructure for payments and market places where buyers and sellers of various financial instruments can meet.

The Riksbank's mandate includes taking preventive action in order to reduce the probability of a financial crisis arising, as well as being prepared to manage a crisis if one should nevertheless arise. The Riksbank is also responsible for issuing banknotes and coins. Furthermore, the Riksbank provides a system for intra-bank payments in Swedish kronor, called the RIX system (see Figure 1).

■ Financial stability

It is important that payments can be made safely and efficiently to enable the economy to function smoothly. The smoother and safer the transactions are made, the lower the costs and risks of producing goods and services will be. This benefits growth and employment in the long term. If one of the components of the financial system suffers a serious shock, the costs to society can be very great. Thus there is a need for someone to oversee and ensure that the entire financial system functions smoothly. The Riksbank has been given this task mainly because the Riksbank is the authority in Sweden that issues banknotes and coins and at the same time functions as the bank for other banks.

The Riksbank acts to prevent problems in the financial system

An important part of the Riksbank's preventive stability work is to oversee the Swedish financial system. There must be regular follow-up and analysis in order to be able to assess whether risks are building up in this system or in the infrastructure that is important for payments. The payment infrastructure includes the technical systems, rules and routines that are used to pay for securities, currencies, goods and services.

Figure 1

The Riksbank's work to promote a safe and efficient payment system

The Riksbank's work with financial stability

Preventive work:

- Oversee the financial system
- Report on financial stability
- Influence regulations and legislation
- Conduct research
- Influence market participants and authorities by means of communication

Crisis management:

- Maintain a well-prepared organisation to deal with disruptions in the financial system
- Conduct crisis exercises
- Provide liquidity assistance
- Ensure that the financial markets function well

The Riksbank's operational tasks

- Issue banknotes and coins
- Provide a system for large-value payments between banks and other participants



Kaj Kvaavik (Asset Management Department), Erik Lenntorp and Lena Strömberg (Financial Stability Department).

The four major banks in Sweden constitute the focal point of the Riksbank's oversight activities, since they play a central role in the Swedish financial system. The Riksbank also oversees the financial markets as the banks are dependent on these markets to fund their operations and manage their risks. With increasing integration between countries, financial markets in other countries are also of growing importance to the Swedish banks. In addition, a large part of the banks' earnings come from securities trading. A safe and efficient infrastructure is a precondition for the effective functioning of this trade. The Riksbank therefore continually oversees the systems in the Swedish financial infrastructure that it considers to be critical to the functioning and stability of the financial system.

In order to prevent crises, the Riksbank analyses and monitors developments and communicates its results and assessments. Among other things, the Riksbank publishes a Financial Stability report twice a year. In these reports, the Executive Board presents its assessment of the resilience of the major banks to unexpected events and highlights risks that could potentially threaten the stability in the financial system.

Knowledge about the Riksbank's efforts to promote financial stability is also disseminated in other ways: by conducting an ongoing dialogue with the market participants, by giving speeches and by participating in the public debate. Moreover, the Riksbank is in a position to influence the framing of laws and regulations that relate to supervision and crisis management, for instance by responding to consultation documents and actively participating in the work of a number of international organisations. International cooperation is not least important for

continuously adapting and strengthening the forms of coordinated oversight and supervision between national authorities.

The Riksbank manages financial crises

The financial system is so strongly interlinked that a problem that arises in one bank can quickly spread to other banks. This is because banks borrow from each other, often lend to the same groups and are dependent on the same financial markets. They are also exposed to the same type of disturbances that can arise in the real economy. In addition, increased globalisation means that confidence and liquidity crises affecting banks in other countries can spread to the Swedish banks.

If a financial crisis occurs, it is the Riksbank's task to manage the crisis in such a way that the costs to society are as limited as possible. In this the Riksbank cooperates with Finansinspektionen (the Swedish Financial Supervisory Authority), the Ministry of Finance and the Swedish National Debt Office. The Riksbank has a special responsibility for the liquidity supply of the Swedish banks. This means that the banks can borrow from the Riksbank under given terms and conditions and that the Riksbank can provide temporary liquidity assistance to individual banks that suffer an acute liquidity crisis. This assistance is provided on condition that the bank is under the supervision of Finansinspektionen and that its future earning capacity is deemed to be sufficient to enable the bank to survive. The bank in question must also be systemically important in the sense that serious disruptions could arise in the financial system if the bank failed. It is not possible to determine in advance whether a bank is systemically important or not – the assessment must be made on the basis of the circumstances at the time.

It is also possible for the Riksbank to take general measures to support the supply of liquidity to the Swedish banking system, for example if the international and Swedish financial markets suffer serious disruption. The aim of such measures is to reduce the risk of a shortage of liquidity leading to acute liquidity problems in individual banks and to facilitate credit supply in the economy.

In order to manage a crisis effectively, the Riksbank must constantly keep its plans for a crisis organisation up to date. The Riksbank therefore organises its own crisis exercises to evaluate and improve its crisis preparedness. It also participates in exercises together with other Swedish and foreign authorities, primarily supervisory authorities and ministries of finance. In pace with the growth of cross-border banking operations, it has become increasingly important to conduct crisis exercises in which authorities from different countries participate. Financial crisis management has also become a high-profile issue for the Riksbank's work in various international forums.

Activities in 2009

In 2009 the Riksbank's financial stability work was dominated by the crisis that started in the US mortgage market in 2007 and affected Sweden in earnest in autumn 2008. The massive measures implemented after the collapse of Lehman Brothers in autumn 2008 reduced fairly rapidly the acute liquidity problems that followed in the wake of the crisis. In 2009 the problems were more related to the credit risk caused by the severe deterioration in the world economy as a result of the financial crisis (see Diagram 8). The fall in the world economy slowed during the course of the year, and in the autumn an increasing number of signs of a recovery were seen. But at the year-end the financial systems were still dependent on the measures taken by central banks and government authorities across the world.

The financial systems became gradually less dependent on central bank measures for their liquidity supply and lending capacity. The activities relating to financial stability were therefore increasingly focused on discussing how national and international financial regulatory frameworks and supervision could be reformed to prevent the emergence of new systemic crises.

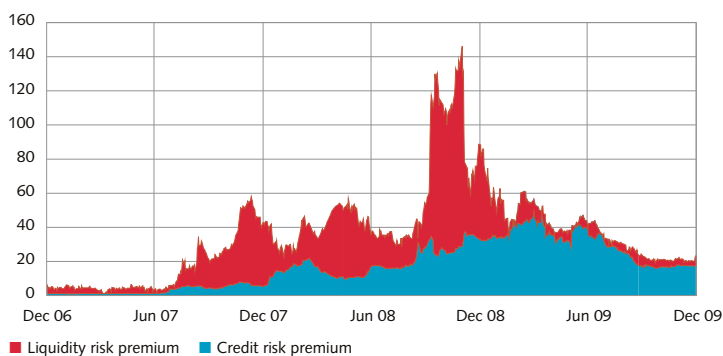
Measures to strengthen the banks' liquidity and provision of credit

The majority of the measures taken by the Riksbank and other authorities in 2008 remained in force in 2009. Thus the possibility of the Riksbank's counterparties to borrow in kronor against collateral for longer terms than normal, as well as to borrow in US dollars, remained available for most of the year. This also applied to the possibility to borrow from the Riksbank against collateral in newly issued commercial paper. During the year the Swedish National Debt Office also supported the banks' and mortgage institutions' medium-term funding through the guarantee programme. The banks that joined this programme could issue government-guaranteed bonds.

The situation in the financial markets improved over the course of the year. One sign that liquidity problems in the Swedish banking system were decreasing was that in the second half of the year several banks opted to deposit the liquidity they obtained by borrowing Swedish kronor from the Riksbank in the form of Riksbank certificates at the repo rate (see Diagram 9). Hence the banks were acting in a different way compared with an earlier phase of the crisis, when they had instead deposited most of their liquidity in accounts with the Riksbank at a rate of 0.1 percentage point below the repo rate. By depositing their liquidity in accounts with the Riksbank the banks had immediate access to it for covering any deficit in their current payments.

Diagram 8

Risk premiums by credit risk and liquidity risk, basis points

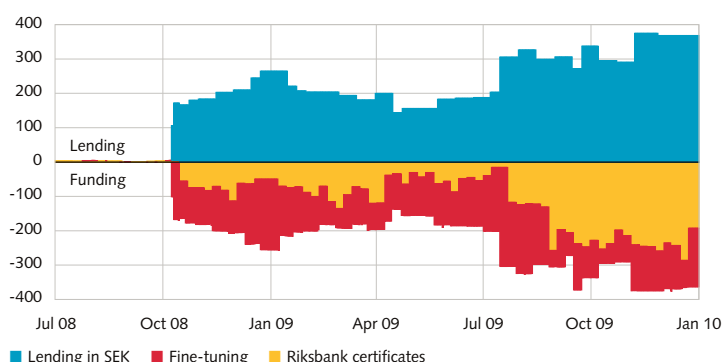


Note: The diagram shows an indicative breakdown of the Swedish basis spread for the three-month interbank rate.

Source: The Riksbank.

Diagram 9

The Riksbank's lending in Swedish kronor and its funding, SEK billion



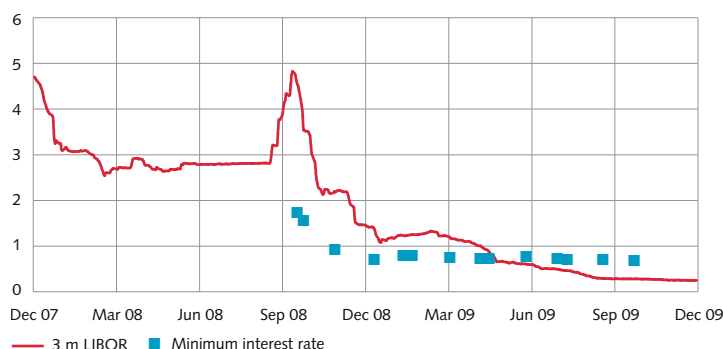
Source: The Riksbank.

When opportunities of finding funding in the markets improved, the demand for support measures decreased, both globally and in Sweden. Demand for the loans that enabled Swedish banks to fund their corporate lending in the Riksbank against collateral in newly issued commercial paper ceased completely. In the second half of the year the US dollar money market started to function better, and it became more advantageous for the banks to borrow in the market. When market rates fell under the Riksbank's minimum rate for loans in US dollars (see Diagram 10) the banks no longer showed any interest in borrowing US currency from the Riksbank (see Diagram 11).

The reduced demand for support measures in the world led to several central banks announcing that they had started to exit from some measures. In Sweden in September the Riksbank discontinued the loan facility allowing banks to fund their corporate lending by borrowing from the Riksbank. In November the Riksbank decided to discontinue the US dollar loan facility. In the same month the interest supplement on loan facilities at variable rates in Swedish kronor was

Diagram 10

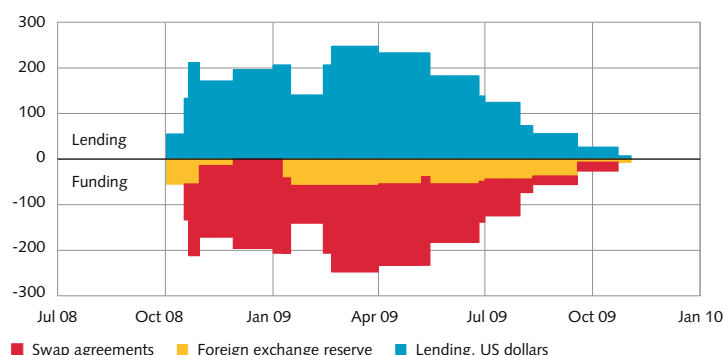
Three-month LIBOR and the Riksbank's minimum interest rate for lending in US dollars, per cent



Source: The Riksbank.

Diagram 11

The Riksbank's lending in US dollars and its funding, SEK billion

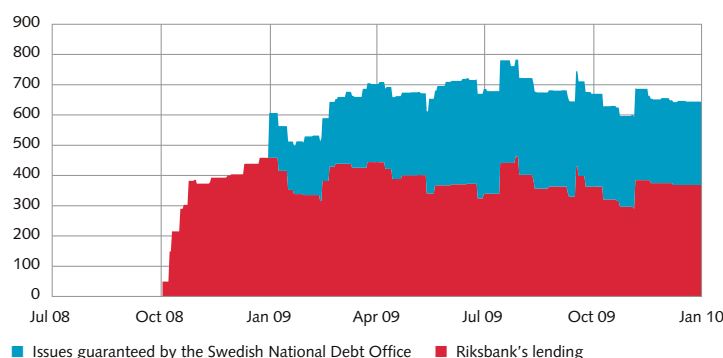


Note: Data on financing of the Riksbank's lending in US dollars is only available in Swedish kronor. Consequently lending is translated into SEK.

Source: The Riksbank.

Diagram 12

The Riksbank's lending and funding guaranteed by the Swedish National Debt Office, SEK billion



Sources: Swedish National Debt Office and the Riksbank.

raised to direct the banks' interest towards borrowing in the market, thereby initiating a natural phase-out of these facilities.

At the end of the year the banks' loans with the Riksbank amounted to SEK 369 billion. Most of these were fixed-rate loans that the Riksbank had offered to the banks on three occasions in the second half of the year for monetary policy purposes (see the section "Maintaining the value of money – price stability"). The stock of government-guaranteed bonds was at its peak in June 2009 when it was SEK 349 billion. In the second half of the year it decreased to SEK 271 billion. The value of the outstanding stock of government-guaranteed bonds and the Riksbank's lending was altogether SEK 640 billion at the close of the year (see Diagram 12).

Preparedness for liquidity support in foreign currency

The Riksbank's lending in US dollars to Swedish banks was financed in 2009 partially with loans via a swap agreement with the Federal Reserve, partially out of the foreign currency reserve (see Diagram 11). The Riksbank prolonged the swap agreement with the Federal Reserve on two occasions in order to be able to borrow US dollars in exchange for Swedish kronor.

In addition, since 2008 the Riksbank had a swap agreement with the central banks of Iceland and Latvia, which supplemented the financial support measures to these countries from the International Monetary Fund (IMF) and other lenders. The agreements gave these central banks the opportunity to borrow foreign currency from the Riksbank if required. In February 2009 the Riksbank also entered into a swap agreement with the central bank of Estonia to enhance the Estonian central bank's possibilities to maintain financial stability in Estonia. The Icelandic swap agreement expired according to schedule at the close of 2009.

Moreover the Riksbank extended its commitment to contribute to active trading in IMF special drawing rights (SDR). In addition the Riksbank judged it to be reasonable to participate – in accordance with an agreement within the EU – in the funding of Sweden's share of the planned strengthening of the IMF's financial resources. Consequently, the Riksbank sought during the year the approval of the Riksdag for its contribution to this reinforcement, which consists of an undertaking to provide a temporary loan of about SEK 25 billion, which corresponds to Sweden's share. If the Riksdag approves this loan it will increase the requirements on the Riksbank to be prepared to provide liquidity in foreign currency. The temporary loan aims to contribute to the IMF's funding pending a tenfold increase in the New Arrangements to Borrow (NAB) – a supplement to the IMF's ordinary funding resources – where the Riksbank will be responsible for the Swedish capital commitment.

Measures taken by the Riksbank during the financial crisis in 2009

For a complete description of measures implemented by the Riksbank during the year please refer to the Riksbank's website www.riksbank.se.

3 February Together with most other countries the Riksbank increases its swap line with the Federal Reserve. The agreements mean that the countries can borrow US dollars in exchange for other currency.

13 February The Riksbank offers loans at longer maturities at a variable interest rate. The loans will be granted partly against normal collateral for up to six months, partly against collateral in the form of commercial paper for up to twelve months. The minimum interest rate on these loans is set at the average repo rate over the maturity of the loan with a supplement of 0.15 percentage points.

27 February The Riksbank signs a swap agreement with the Estonian central bank, Eesti Pank.

27 March The Riksbank is reimbursed for the liquidity assistance paid to Kaupthing Bank Sweden AB in connection with Ålandsbanken's purchase of that bank.

3 April The Riksbank increases the number of monetary policy counterparties by allowing more financial institutions to

become restricted counterparties, thus gaining access to the Riksbank's temporary loan facilities.

7 May The Riksbank offers loans in Swedish kronor with a maturity of twelve months against collateral. The minimum interest rate on these loans is set at the average repo rate over the maturity of the loan with a supplement of 0.15 percentage points.

8 May The Riksbank extends the swap agreement signed with the Latvian central bank, Latvijas Banka, in December 2008. The swap agreement gives the Latvian central bank the right to borrow up to EUR 500 million against Latvian lats if and when needed.

27 May The Riksbank strengthens the foreign currency reserve by deciding to borrow the equivalent of SEK 100 billion.

10 June The Riksbank decides to borrow EUR 3 billion from the ECB by using a previously concluded swap agreement to borrow euros in exchange for Swedish kronor.

25 June Together with most other countries the Riksbank prolongs its swap line with the Federal Reserve.

2 July For monetary policy purposes the Riksbank offers fixed rate loans against collateral with a maturity of twelve months.

28 August The Riksbank again prolongs the swap agreement entered into with the Latvian central bank in December 2008.

3 September Lending against collateral in commercial paper is discontinued.

3 September For monetary policy purposes the Riksbank offers a second fixed rate loan against collateral with a maturity of just under twelve months.

11 September The loan from the ECB is repaid.

22 October For monetary policy purposes the Riksbank offers a third fixed rate loan against collateral with a maturity of about eleven months.

5 November The Riksbank raises the minimum interest rate on variable rate loans. The supplement on top of the average repo rate is raised to 0.25 percentage points for loans with three-month to six-month maturities and to 0.30 percentage points for loans with twelve month maturities.

19 November Lending in US dollars is discontinued.

These commitments in foreign currency were equivalent to about SEK 100 billion and made great demands on the swift availability of the foreign currency reserve. At the end of March the Riksbank's gold and foreign currency reserves amounted to about SEK 218 billion, out of which an amount equivalent to SEK 53 billion was used as collateral for borrowings in US dollars used for loans to Swedish banks. Hence the available portion of the foreign currency reserve was SEK 165 billion. Of this, however, only SEK 65 billion would have remained if the commitments in question had been met, which was at least SEK 100 billion less than the Riksbank's assessment of the Swedish banks' short-term refinancing requirements, assuming that the Riksbank would continue to borrow dollars from the Federal Reserve. At the end of March the total dollar borrowing from the Federal Reserve was equivalent to SEK 194 billion.

To maintain the Riksbank's preparedness to deliver on the various commitments, the Executive Board decided in May to strengthen the foreign currency reserve by borrowing foreign currency via the Swedish National Debt Office to the value of SEK 100 billion. Whilst the borrowing process

was in progress the Riksbank temporarily borrowed EUR 3 billion from the ECB via the swap agreement that the two central banks had previously concluded. The strengthening of the foreign currency reserve is temporary and should – in accordance with the Executive Board's decision – be discontinued when all extraordinary lending by the Riksbank has ceased and other government measures due to the crisis have been discontinued.

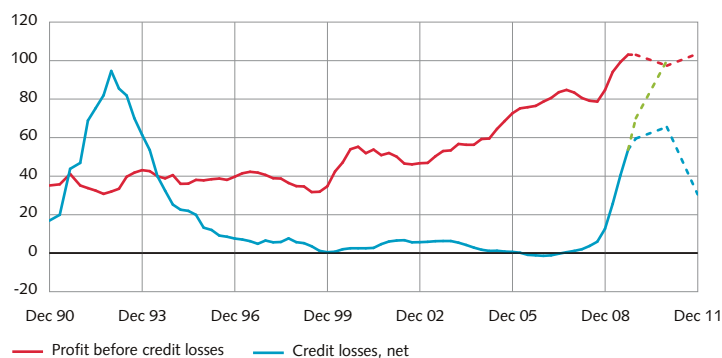
During the year the Riksbank also entered into an agreement on possibilities to borrow international currency under special arrangements from the Bank for International Settlements (BIS).

Assessments of financial stability

During the year the Riksbank estimated that the Swedish banks' resilience improved as financial markets gradually started to function better and the economy regained strength. The positive development was possible thanks to the banks' improvement of their capital situation, for example through new issues. It was also important that the authorities continued to provide support measures. However, the banks were still facing major credit losses.

Diagram 13

Profit before credit losses and credit losses (net) in the major banks, cumulative over four quarters, SEK billion, 2009 prices



Note: The broken lines refer to the Riksbank's forecast for the major banks' profit before credit losses (red line) and net credit losses in the main scenario in June 2009 (green line) and November 2009 (blue line).

Source: The Riksbank.

In the spring Swedish banks had sufficient capital to meet large losses

In June 2009 the Riksbank estimated that the banks' liquidity risks had decreased since November 2008. The Riksbank's liquidity assistance and the government's guarantee programme for borrowing, like the measures taken by other authorities, had contributed to this. Nevertheless, the sensitivity to individual disturbances continued to be great in the financial markets. The banks' access to funding could therefore be affected if the confidence crisis were to again pick up momentum.

At the same time the world economy had weakened considerably. The weak economic trend worsened the outlook for the banks' borrowers, and credit risk took over as the most imminent risk for the banks.

The Riksbank took these factors into consideration in its main scenario of the banks' credit losses for 2009 and 2010. In the main scenario it was estimated

that the credit losses in the Swedish banks would total SEK 170 billion for both years (see Diagram 13). Almost 40 per cent of the losses were expected to derive from the banking groups' operations in the Baltic countries and the rest of Eastern Europe. However, during the spring the banks had sufficient capital to meet losses of that order.

Uncertainty about future developments in the economy and about their effects on the banks was, however, great. The Riksbank therefore assessed the banks' resilience to a considerably worse, but less probable, scenario in a stress test. Also the stress test showed that the banks would manage to maintain the statutory Tier 1 capital ratio, which is the legal requirement that the banks' equity in relation to risk-weighted assets must exceed 4 per cent.

In the autumn the banks were better equipped to meet losses

In the second half of the year the financial markets started to function better, both internationally and in Sweden. At the same time the economy started to recover, and GDP growth seemed to be somewhat stronger than many had expected a few months previously. However, the Riksbank judged that the foundation for the recovery was fragile and that the outlook continued to be uncertain.

As conditions in the financial markets improved, and the recession seemed to have reached its trough it was easier for the banks to find funding. Demand for some of the support measures therefore decreased internationally. At the same time the risk of future credit losses declined, even if this was still the most salient risk (see Diagram 8). Uncertainty concerning the size of future credit losses in the banks remained, however, and confidence between the financial market participants had not been entirely restored. Support measures were therefore still considered to be important for the functioning of the financial markets.



In 2006 an evaluation of the Riksbank's monetary policy in 1995–2005 was published. The evaluation was made by Professors Francesco Giavazzi and Frederic Mishkin under a mandate of the Riksdag Committee on Finance. The evaluation shows, among other things, that monetary policy work improved considerably after the introduction of an inflation target policy conducted by an independent Riksbank.

In the Riksbank's main scenario in November the Swedish banks' credit losses for the period 2009–2011 were expected to be SEK 150 billion kronor. This was SEK 20 billion lower than the forecast in June despite the fact that the new assessment covered three years (see Diagram 13). The downward revision was mainly due to an improved economic outlook. Moreover, up to and including the autumn the banks' losses had proved to be lower than expected. As in June, the largest losses were expected to come from the banks' operations in the Baltic countries.

Since June the banks had been actively increasing their capital and reducing their risk-weighted assets, thereby increasing their ability to meet losses of the order expected. Therefore, the Riksbank also in November estimated that the banks' capital was sufficient to meet the expected losses. A setback in the economy could, nevertheless, make the situation for the banks worse than in the main scenario, but a new stress test showed that the banks would manage with a greater margin than in the June assessment. This was mainly because the banks had strengthened their capital situation during the year by means of issues on the private market. In addition, a brighter main scenario with a slightly better economic outlook contributed to the positive result.

Changed international regulatory framework in the wake of the crisis

Besides the handling of the financial crisis and regular analysis of the situation in the financial markets, the Riksbank's stability work during the year became increasingly focused on studying and influencing the framing of the future financial regulatory framework and supervision. This consisted mainly of being active in the international arena, since Swedish banks and financial companies are regulated by the laws drawn up at EU level and which in turn are based on guidelines drawn up by other international bodies.

The international work to reform the financial regulatory framework and design supervision of the financial sector was intense during the year. Above all it was aimed at formulating the regulatory framework in such a way as to reduce the risk of crises and improve the handling of crises that would nevertheless occur. In addition, the international cooperation in the area should contribute to consolidating the macroeconomic gains that the integration process in the EU has contributed to.

The Riksbank participated in discussions both at EU level and within the BIS on how the regulatory framework can be amended to increase the banks' resilience. The international discussions led to proposals to change the international standards that regulate the composition and size of the banks' capital (including the Basel II rules) and to introduce quantitative liquidity measures. There were also discussions in several contexts as to how the regulatory framework should be designed so that the banks can build up sufficient capital in good times so as to be better able to meet losses when the economy contracts. Within the EU attention was drawn to the issue of how the existing rules for measuring the value of financial instruments had contributed to aggravating the crisis and how these rules could be changed to avoid a similar situation in the future. Among other matters discussed in the international arena was the need for regulation to encourage banks to use central counterparties for OTC derivatives so as to facilitate the identification of counterparty risk.

The global financial crisis has clearly shown that differences in national legislation have made it difficult to handle problems in banks that operate in several countries. Consequently there are several projects under way at global level to draw up proposals about how crises in banks with cross-border operations can be handled more effectively. This work was intensified during the year. For example, the EU's Economic and Financial Committee



The Riksbank started to publish its own repo rate forecast in 2007. The Inflation Report was then supplemented by an extensive explanation of the monetary policy decision and so changed its name to the Monetary Policy Report. The minutes of the monetary policy meetings also started to include the names of the Executive Board members next to their respective contributions to the discussion.

International cooperation

In addition to managing the consequences of the global financial crisis, the Riksbank gave in 2009 special priority to international cooperation aimed at preventing international financial crises, improving the management of crises that do arise, as well as promoting the effectiveness of the international financial system. The Riksbank's international cooperation has a wide scope and addresses also other economic and financial issues, as well as the Riksbank's responsibility as partner or member of a number of international organisations. Altogether the Riksbank is represented on about 130 international committees and working groups.

In 2008–2009 Sweden represented the Nordic-Baltic Constituency at the International Monetary Fund (IMF). In consultation with the Ministry of Finance the Riksbank led the work of preparing instructions in important board matters. At the IMF's Annual Meeting in autumn 2009 the Nordic-Baltic Constituency supported proposals to increase the IMF's financial resources and to strengthen the influence of above all a number of emerging market economies, whose voting power in the IMF did not correspond to their weight in the global economy. During the year the Riksbank sought the approval of the Riksdag for its contribution to the strengthening of the IMF's resources. According to the proposal, following an agreement within the EU, the contribution consists of a temporary loan with a maturity of up to seven years of about SEK 25 billion. The purpose of this loan is to prepare an extended commitment on the part of the

Riksbank for up to about SEK 40 billion as part of the New Arrangements to Borrow (NAB), which is a supplementary resource base for the IMF. In connection with the IMF decision on a new allocation of special drawing rights (SDR) the Riksbank also signed a new SDR trading agreement, implying an extension of the Riksbank's commitment to exchange SDRs for reserve currencies and vice versa.

During the year Sweden also encouraged the IMF to strengthen its role in surveillance, mainly by an improved integration of analyses of macroeconomic developments and financial stability. Further, Sweden supported the decision to set up a special loan facility, the Flexible Credit Line, for countries that conduct responsible economic policies but wish to have an assurance that they can borrow from the Fund if they encounter disturbances.

Within the Bank for International Settlements (BIS) the Riksbank makes an active contribution to the standard-setting activities, mainly in the Basel Committee on Banking Supervision. The Riksbank was also engaged in the discussions on reviewing the governance structure of the BIS. This applied particularly to the forms of governance of several key BIS committees that had been enlarged with new member countries from the G20. The Riksbank continues to be a member of these committees at the BIS. Further, the Governor of the Riksbank Stefan Ingves chairs a committee of the board of directors commissioned to strengthen the board's involvement in the internal governance

of the banking and risk management of the BIS.

As a member of the European System of Central Banks (ESCB) the Riksbank participated in discussions on economic and financial developments, on the application of the common EU regulatory framework and on the development of public sector finances. Further, the Riksbank commented on proposed opinions by the ECB on new legal instruments in the EU and individual Member States. The Riksbank was also represented on the various committees within the ESCB that prepare matters for the General Council of the ECB.

Within the Economic and Financial Committee (EFC) the Riksbank contributed in particular to the work of reforming the EU financial regulatory framework and strengthening the forms of cooperation within the EU as regards cross-border financial crisis management.

The Riksbank also participated in various groups in the Organisation for Economic Cooperation and Development (OECD) for discussions of economic policy and in informal cooperation on central bank related issues between Nordic central banks.

In addition, the Riksbank provides technical assistance in the build-up of central bank operations in selected developing countries. During the year the assistance comprised cooperation with the central banks in Albania, Kenya, Uganda and Vietnam. The activities were financed by funds from the Swedish International Development Cooperation Agency, Sida.

entrusted Deputy Governor Lars Nyberg with the special task of heading a working group to study how cooperation between authorities had functioned during the financial crisis and what reinforcements of the forms of cooperation are particularly important for the future.

The differences in national regulatory codes also meant that the financial stability work of central banks was given more attention in general. Within the BIS a working group was set up to survey how national mandates and tasks in this area are formulated. The Governor of the Riksbank, Stefan Ingves, was appointed to lead this work.

During the year the Riksbank was also given the opportunity to work for a more effective supervisory structure in the EU. Deputy Governor Lars Nyberg participated in a high-level working group under the Economic and Financial Committee (EFC) to

draw up a proposal for more effective oversight of the financial system and financial institutions of the EU. The proposals presented by the high-level group led during the year to an EU decision to transform the existing bodies for supervisory cooperation in the EU to formal authorities with increased powers and to introduce a new agency, the European Systemic Risk Board (ESRB). The task of the Systemic Risk Board will include collecting and analysing information to make risk assessments of significance for the stability of the financial system in the EU.

Cooperation with other Swedish authorities and market participants

The financial crisis has also clarified the importance of close cooperation between Swedish authorities and financial market participants.

The Swedish Government Offices, the Riksbank and Finansinspektionen have had an agreement since 2005 on cooperation for financial stability and crisis management. The background was that ministries of finance, central banks and supervisory authorities in all EU member states had agreed on cooperation on these matters in cases of cross-border issues. Within the context of this cooperation a new national cooperation agreement was made during the year. The cooperation now also includes the Swedish National Debt Office, since that authority has gained an important role in the work of financial stability and crisis management.

In addition, the public and private sectors have been running a joint project since 2005 in a private-public sector cooperation body for the financial sector called FSPOS. Its aim is to prevent technical disturbances in the infrastructure from having serious consequences on the financial system. This cooperation body was made permanent in 2009 and in the coming two or three years it is to work under the leadership of the Riksbank.

Follow-up

During the year the financial system could maintain its functions. When the crisis started in autumn 2008 it was generally feared that the banks, due to funding difficulties and anxiety about future credit losses, would become so restrictive in their lending that normal creditworthy households and companies would not be able to borrow for investment, consumption and housing purchases. Expansionary fiscal and monetary policy combined with massive measures to support liquidity in the banking system, however, meant that the worst fears did not materialise as regards the Swedish banking system. Lending to Swedish borrowers continued to grow, and at the end of 2009 the banks were still well capitalised after in several cases successfully carrying out new issues of shares.

Despite the fact that it was not possible to predict a global financial crisis of such an extent that emerged in autumn 2008, the authorities throughout the world quickly took a number of measures that all in all helped economies to start recovering in 2009. In cooperation with other authorities the Riksbank also took extraordinary measures that had not been used earlier. The crisis has also shown how closely the financial markets are linked worldwide.

The Swedish financial infrastructure functioned well during the year. Despite strains, above all when the systems had to handle more transactions, there were no disruptions in the systems. The annual evaluations of the payment systems and systems for trading in financial instruments showed that the systems in the Swedish infrastructure met internationally established standards in full or in part.

The RIX payment system

The RIX payment system is the Riksbank's system for funds transfers. It forms the hub of the Swedish financial system, since it enables its participants – banks, clearing organisations and others – to make transfers between each other's accounts held with the Riksbank. These transfers can refer to the banks' and clearing organisations' own financial transactions or their customers' transactions. By and large all payments in SEK that are not made internally within an individual bank are handled in RIX. The turnover per week, about SEK 3 300 billion, almost corresponds to Sweden's entire gross domestic product (GDP), i.e. the value of all the goods and services produced in the country in one year.

In order to increase the efficiency of the payment system, the Riksbank adds liquidity during the day by granting credit to the participants against collateral. This collateral mainly consists of Swedish and foreign securities but may also be foreign currency.

Since RIX is of critical importance to the efficient functioning of the financial system, the Riksbank has set a high target for its availability. The system must



In autumn 2008 the global financial crisis intensified. Since then the Riksbank has decided to carry out several extraordinary measures to promote stability in the Swedish financial system and combat the downturn in the real economy. A full list of the extraordinary measures can be found on the Riksbank's website; www.riksbank.se.



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be available at least 99.85 per cent of the time the system is open. RIX must also satisfy its participants' requirements. Consequently, the ambition of the Riksbank is that 80 per cent of the participants must be satisfied with RIX. In addition, all costs relating to the provision of services in RIX are to be covered by fees paid by the participants. This means that the Riksbank also pays fees to the system in accordance with the same principles as the other participants and pays for the functions used for implementing monetary policy.

Activities in 2009

On 9 February 2009 a new technical system for RIX was brought into operation. The operational launch had been postponed on two occasions previously: first in spring 2007, due to delivery delays, and then in autumn 2008 to minimise the risks of disruption during the acute phase of the financial crisis. Since coming into operation the system has functioned well. The Riksbank has invested a total of about SEK 84 million in the new system.

Since RIX is of great importance to the financial system the Riksbank needs to have efficient contingency procedures if the technical system should fail. In 2009 these routines were developed further and rehearsed in collaboration between the Riksbank and participants. To enable the Riksbank to grant credit in RIX it is also important that the system that handles all banks' collateral can supply relevant information. This collateral management system was upgraded twice in 2009 to enable its functions to better meet new requirements that had become apparent during the financial crisis.

Since the beginning of the year two more participants have joined the system, both foreign companies. At the close of the year there were 22 RIX participants.

The number of payments processed in RIX during the year was on average just under 10 200 transactions per day. This is an increase of 27 per cent compared with the previous year. In October and December the average was just under 12 600 transactions per day. This increase is because some of the participants opted to send more transactions one by one instead of aggregating them into a larger-amount transaction. This in turn is a consequence of the new technical system having a higher capacity than the old one, with more effective liquidity management functions.

The average daily turnover was about SEK 660 billion. Adjusted for transactions related to the Riksbank's special loan programme, this means a 12 per cent decrease compared with the previous year.

On average the participants had a credit facility in RIX of over SEK 200 billion, equivalent to the value of the collateral pledged to the Riksbank and not used for other credit. The sum of the maximum credit that each participant utilised per day was equivalent on average to 29 per cent of this credit facility.

According to the Riksbank's vision, for most of its activities the bank must evaluate whether it is the most appropriate agent to perform different tasks. In light of this, in the autumn a study was started on the role of the Riksbank in the central payment system. The study looks in particular at whether it should be the Riksbank or another external operator that should supply the system, and in that case in what way this should be done. The study is expected to be completed in the first quarter of 2010.

Follow-up

All in all, the payment system functioned well during the year. RIX was only affected by one short disruption that affected availability. System availability was 99.98 per cent, which meets the target in good measure.

The survey of system participants carried out in the autumn shows that 97 per cent are satisfied or very satisfied. This is higher than the target of 80 per cent. In addition, 99 per cent of the participants have confidence or great confidence in the department of the Riksbank that is responsible for RIX. The costs of the RIX system, SEK 67 million, were 94 per cent covered by fees. All in all, this means that the targets for RIX were met, apart from the cost of the operation not being fully covered by the users.

In 2009 the Riksbank started to compile a four-monthly report for RIX that is sent to the partici-

pants and published on the Riksbank's website. The report presents various data from RIX and to some extent peripheral systems. It contains information about changes, special activities, any incidents, volumes and values processed within the system, as well as the credit facility available and how it has been used. The participants also receive a weekly report containing brief information concerning volumes, values and credit facility per day.

Cash management

The Riksbank is responsible for the provision of the country's banknotes and coins and has the exclusive right to issue Swedish banknotes and coins. 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 objective of this activity is to ensure that banknotes and coins are of high quality and that the Riksbank's cash management is secure and efficient. The general public and companies that handle cash must have great confidence in both banknotes and coins and cash management.

The Riksbank supplies cash to the banks via its two branches for cash management in Tumba and Mölndal. The banks then distribute the cash to the retail sector and the public via their twelve cash depots around the country. The distribution is carried out by cash-in-transit companies.

Activities in 2009

The average value of cash in circulation in 2009 was SEK 106.5 billion. The value of cash in circulation has increased from year to year over a long period, but has now decreased for the second year in a row. The decrease from 2008 to 2009 was 1.1 per cent.

The average value of the banknotes in circulation was SEK 100.5 billion (see Diagram 14). The most common denomination, which accounted for the largest part of this total, was the five-hundred-krona banknote. This banknote represented 31 per cent of the number of banknotes and 55 per cent of the total value of banknotes in circulation on average during the year.

The average value of coins in circulation was SEK 6.0 billion (see Diagram 15). The most common denomination was the one-krona coin. This coin represented about 60 per cent of the number of coins in circulation and 22 per cent of the total value of coins in circulation on average during the year.

In 2009 the Riksbank continued its review of the Swedish banknote and coin series started in 2008, aimed at developing an efficient, environmentally friendly and secure banknote and coin series. The first change in the banknote and coin series was decided by the Riksdag in March. This refers to the 50-öre coin, which will cease to be legal tender on

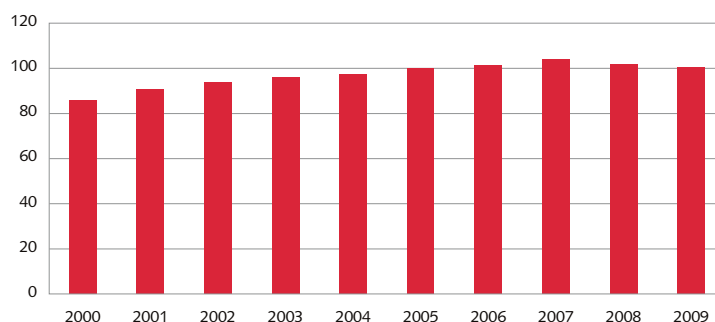
Figure 2

The 2009 special minting of the one-krona coin



Diagram 14

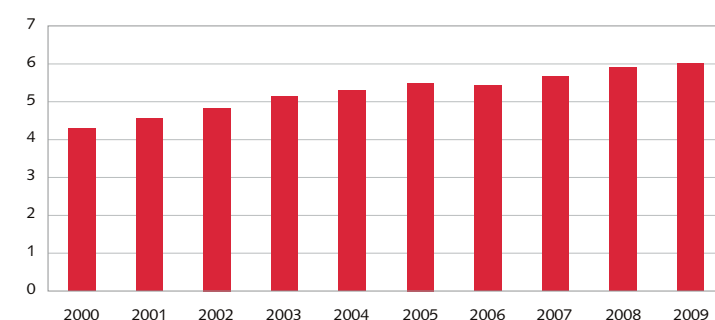
Average value of banknotes in circulation, SEK billion



Source: The Riksbank.

Diagram 15

Average value of coins in circulation, SEK billion



Source: The Riksbank.

Table 2**Banknotes and coins**

	2005	2006	2007	2008	2009
Average value of banknotes and coins in circulation (SEK billion)	105.6	106.5	109.5	107.7	106.5
Average value of banknotes in circulation (SEK billion)	100.1	101.1	103.8	101.8	100.5
Average value of coins in circulation (SEK billion)	5.5	5.4	5.7	5.9	6.0
Number of banknotes in circulation (millions)	366	372	390	392	354
Number of coins in circulation (millions)	2 240	2 071	2 047	2 168	2 236
Number of counterfeited banknotes	1 849	996	1 248	1 512	1 064

Source: The Riksbank.

30 September 2010. The Riksbank also continued the work of analysing the appropriate denominations for future Swedish banknotes and coins. The analysis is expected to result in a decision in 2010.

The Riksbank issued during the year one-krona coins with a special minting on the reverse, which shows a symbolic depiction of the sea as a link connecting Sweden and Finland (see Figure 2). The coins thus commemorate the fact that in 2009 it was 200 years since Finland was separated from Sweden.

During the year the Riksbank decided to build a new office for cash management. The office, which will be located in the municipality of Sigtuna, is expected to be in service in early 2013 and will be well adapted for future operational and security requirements. The two existing offices in Tumba

and Mölndal will at the same time be closed down, since no more than one office is needed for cash management. This is because the streamlining of the Riksbank's role in cash management in recent years has reduced the amount of its cash management work.

The Riksbank's cash management advisory board held one meeting in 2009. Representatives from banks, bank cash depots, cash-in-transit companies, the retail trade, trade unions and the relevant authorities participate in the board. Among the issues addressed by the board were the Riksbank's review of banknotes and coins, the new cash management office and developments as regards robberies of banks, cash-in-transit companies and shops.

Follow-up

There was very little counterfeiting of Swedish banknotes in 2009. The value of counterfeit notes removed from circulation during the year amounted to SEK 182 660, which is half of the 2008 figure. The Riksbank's assessment is that the security of cash management in other respects also maintains a high level.

The Riksbank receives regular updates on how cash management is functioning outside the Riksbank from the cash management advisory board and the working groups linked to the board. The Riksbank thus receives information on how the market participants view the functioning of the cash management system and whether there is confidence in banknotes and coins as a means of payment. The Riksbank's assessment is that cash management functions well and that there is confidence in banknotes and coins as a means of payment.



Jan Möller and Ulrika Schwarz (Administration Department).

■ Asset management

The market value of the Riksbank's financial assets was SEK 707.6 billion at year-end. The return was SEK 4.9 billion excluding exchange rate effects. During the year the Riksbank strengthened the foreign currency reserve by borrowing foreign currency to the value of SEK 100 billion from the Swedish National Debt Office. Tactical asset management contributed SEK 425 million to the return.

The Riksbank manages financial assets primarily to ensure the fulfilment of its statutory objective and tasks: to implement monetary policy, be prepared to intervene in the foreign exchange market and be able to provide temporary liquidity assistance to banks. This puts restrictions on management, but while taking these into account, assets are managed to give as high a long-term return as possible in relation to the risk. A good long-term return on assets also strengthens the financial independence of the Riksbank.

Every year the Riksbank makes a decision on the strategic direction of asset management. It specifies for example the allocation of different currencies and assets, and the average duration of assets in the foreign currency reserve. In this context the Riksbank also takes decisions on the extent to which the managers may deviate from the strategic management in order to obtain a higher return. This tactical management is evaluated against a benchmark index.

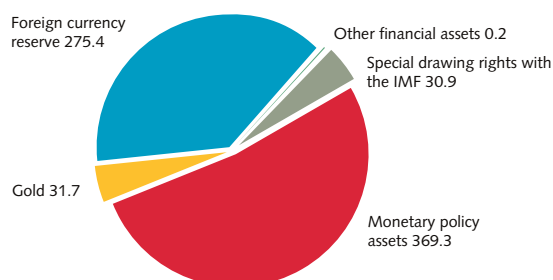
The Riksbank's financial assets

The Riksbank's financial assets consist of the gold and foreign currency reserves, including receivables from the IMF, assets associated with the Riksbank's monetary policy operation and other financial assets (see Diagram 16).

The foreign currency reserve consists of interest-bearing securities in foreign currency with high liquidity and low risk, mainly government bonds. As the foreign currency reserve is invested in foreign currency, there is a currency risk that affects the Riksbank's earnings. To reduce this risk the Riksbank invests in a number of different currencies besides those mainly used for interventions in the foreign exchange market or for liquidity assistance. The Bank mainly buys euros (EUR) and US dollars (USD), but also GB pounds (GBP), Norwegian kronor (NOK), Australian dollars (AUD) and Canadian dollars (CAD) (see Table 3).

Diagram 16

The Riksbank's financial assets at the end of 2009, SEK billion



Source: The Riksbank.

Since the market for Norwegian government bonds is relatively small and has a low turnover, the Riksbank opted not to invest directly in the Norwegian bond market. Instead, the Riksbank invests in US bonds, whose currency risk is converted to Norwegian kronor in the foreign exchange derivatives market. Otherwise, the Riksbank's asset allocation is in line with the currency allocation. In order to enhance return on the assets the Riksbank also invests in government-guaranteed securities issued by US agencies and in Australian semi-government bonds.

Like most central banks, the Riksbank has a gold reserve. To some extent, this is a remnant from another era when the value of banknotes and coins in circulation was linked to gold. The price of gold tends not to follow the prices of assets in the foreign currency reserve, and therefore a certain holding of gold may reduce the average price movements of the assets.

The Riksbank's assets also consist of receivables from the International Monetary Fund (IMF).

In order to implement its monetary policy, the Riksbank may also hold Swedish kronor, known as monetary policy assets. Normally these are receivables

Table 3

Currency and asset allocation in the foreign currency reserve, per cent

	USD	EUR	GBP	CAD	AUD	NOK
Currency allocation	20	50	10	5	5	10
Asset allocation	30	50	10	5	5	0

Source: The Riksbank.

Seignorage

The Riksbank issues banknotes and coins that are used in Sweden as legal tender. The nominal value of these banknotes and coins is reported as a liability on the Riksbank's balance sheet. The Riksbank does not pay interest on this liability to those who hold these banknotes and coins. However, the Riksbank uses the difference between the nominal value of

the banknotes and coins in circulation and the cost of cash management to acquire financial assets. These assets generate income, called seignorage. In other words, seignorage is the return on the Riksbank's assets corresponding to notes and coins in circulation, less the Riksbank's total cost of cash management.

The Riksbank's estimated seignorage for 2009 is SEK 5 793 million, corresponding to a return of 5.44 per cent. The basis on which seignorage is calculated can be found in the Riksbank's balance sheet and profit and loss account and in the reporting of the Bank's administrative expenses by function.

against collateral from the Swedish banks when the Riksbank lends money by buying securities from the banks – the monetary policy repo. The situation has, however, been different since 2008. The extraordinary lending the Riksbank offers the banks to mitigate the effects of the financial crisis gives rise to a liquidity surplus in the banking system. The Riksbank absorbs the liquidity surplus in Swedish kronor via overnight loans and by issuing Riksbank certificates. The size of the monetary policy assets (or liabilities) depends on how much the banks as a whole borrow from (or deposit with) the Riksbank.

In addition the Riksbank has other financial assets consisting of financial derivatives.

The Riksbank's financial regulatory structure and risk management

The Riksbank has approved a financial risk policy that establishes the overall frameworks for the risk the Riksbank is prepared to accept in asset manage-

ment. The Asset Management Department has a Middle Office that is responsible for day-to-day risk control and calculation of return on the Riksbank's assets. There is also a Risk Division that is responsible for controlling compliance to the financial risk policy. This division is organisationally separate from the department and has an independent position.

The Riksbank's asset management entails financial risk in the form of liquidity risk, market risk and credit risk. Liquidity risk is the risk that the Riksbank will be unable to fulfil its obligations and commitments in a timely way due to inability to sell its assets at all, or only at a materially reduced price. Market risk can be divided into currency risk, interest rate risk and gold price risk. Currency risk is the risk that the market value in kronor of the Riksbank's assets in foreign currency will decrease. This happens when the value of the krona increases in relation to the currencies in the foreign currency reserve. By allocating assets over several currencies the Riksbank endeavours to keep the risk as low as possible. Interest rate risk is the risk that the value of the assets will be adversely affected by interest rate movements. Gold price risk is the risk that the market value of the holdings in gold will decrease because the price of gold falls. Credit risk is the risk of loss due to the Riksbank's counterparties or issuers of the securities in which the Riksbank has invested failing to meet their commitments. The risk of loss due to an issuer of securities being given a lower credit rating also comes under credit risk.

The financial risks also include operational risks. Such risks occur in all operations and may, for example, lead to loss if a person makes a mistake or does something that is not permitted, or if there is a fault in the technical systems.

The Riksbank monitors the asset management risks on a continuous basis. The main risk measurement for market risk is Value-at-Risk (VaR). VaR measures the greatest loss that can occur as a result of price movements over a given period of time and with a given degree of probability.

*Charlotta Edler, Tommy Persson and
Gina Bayoumi (General Secretariat).*



The risks in tactical management are measured by relative VaR (RVaR) which, with the same degree of probability, indicates the greatest loss compared with the benchmark during the corresponding period.

The Riksbank also regularly tests how sensitive the gold and foreign currency reserves are to unforeseen market occurrences. The tests show how much the value can decrease in the event of a particular imaginary or historical scenario.

Activities in 2009

During the year the Swedish financial system continued to be affected by the international financial crisis. Several of the major Swedish banks continued at times to find it difficult to find funding in the foreign markets. Consequently, the Riksbank implemented several measures to combat the banks' funding problems and improve the supply of credit in the economy (see for example the box "Measures taken by the Riksbank during the financial crisis in 2009").

Monetary policy operations

During the year the Riksbank carried out several monetary policy operations. They included transactions in connection with the extraordinary measures taken by the Riksbank as a consequence of the financial crisis.

They were mainly structural operations to secure funding of Swedish banks, partly by offering loans in Swedish kronor against collateral with longer maturities, partly by supplying US dollars to the Swedish banking system. The Riksbank offered loans in Swedish kronor at a variable interest rate with maturities of three, six and twelve months, as well as fixed rate loans of up to twelve months to maturity. The loans at variable and fixed rates were granted against ordinary collateral. Until September the Riksbank also continued to offer loans against collateral in commercial paper. To lend dollars, the Riksbank used the swap agreement with the Federal Reserve and borrowed against the foreign currency reserve. When the swap agreement with the Federal Reserve was used, the Riksbank borrowed dollars against collateral in Swedish kronor. To borrow on the foreign currency reserve the Riksbank carried out repos, which in highly simplified terms means that the Riksbank raised loans in foreign currency in the market and put up assets in the gold and foreign currency reserves as collateral.

In addition the Riksbank granted loans to foreign central banks. These were loans under swap agreements with the central banks of Iceland and Latvia, which were mainly funded by borrowing against the foreign currency reserve.



Strategic management

The Riksbank decided for 2009 to keep the currency and asset allocation introduced in 2006 (see Table 3).

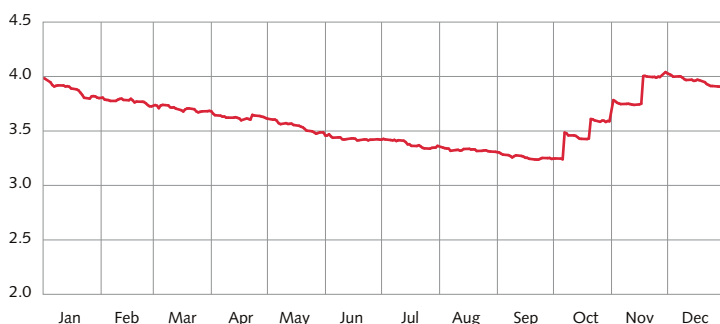
Furthermore, the decision stipulated that the interest rate risk applicable to the foreign currency reserve should be 4.0, measured as modified duration, which means that the value of the foreign currency reserve will fall by about 4 per cent if the level of interest increases by one percentage point. The possibility of managing the composition of assets in the foreign currency reserve was limited during the year, since a large proportion of the Riksbank's securities holding was used to finance the extraordinary lending in US dollars. Consequently, in March the Riksbank decided to deviate from the previously adopted target duration. As a consequence of the decision the duration was somewhat shorter, leading to both a lower risk and a lower return for the foreign currency reserve. In the autumn the target duration was restored to 4.0 (see Diagram 17).

In May the Riksbank decided to strengthen the foreign currency reserve by SEK 100 billion. The strengthening was financed by the Swedish National Debt Office, which borrowed foreign currency for the equivalent value. While the borrowing process was in progress the Riksbank utilised an existing swap agreement with the ECB and raised a temporary loan of EUR 3 billion. This was repaid in September. The entire amount used to strengthen the reserve is invested in government bonds and treasury bills denominated in euros and US dollars to reflect the allocation of currencies and maturity of the loans.

*Jenny Dickson (Financial Stability Department),
Tomas Lundberg (General Secretariat) and Jill Billborn (Financial Stability Department).*

Diagram 17

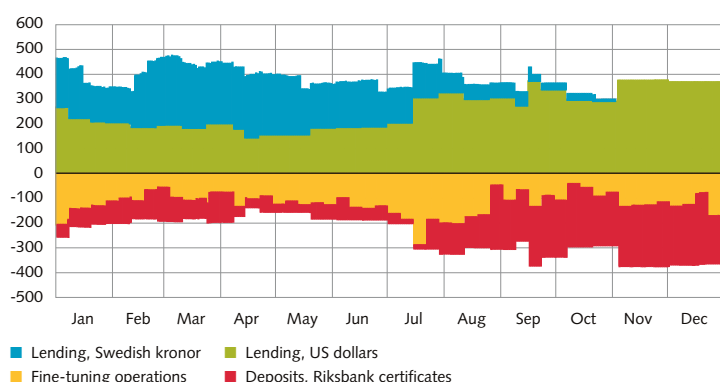
Modified duration of the foreign currency reserve, 2009



Source: The Riksbank.

Diagram 18

The Riksbank's deposits and lending, 2009, SEK billion



Source: The Riksbank.

During the year the Riksbank adhered to its previous assessment that the holding of gold constituted too great a share of total assets and that part of the gold reserve needed to be sold. Between October 2008 and September 2009 (the gold year 2008/09) the Riksbank accordingly sold 15 tonnes of gold. The proceeds of the sale were reinvested in interest-bearing assets in the foreign currency reserve.

The sale of the Riksbank's holding in gold was in accordance with the Central Bank Gold Agreement (CBGA), a five-year agreement between central banks on how much gold they may sell per year. Since the agreement came into force in September 2004 the Riksbank has sold 60 tonnes of gold. Ahead of the 2009/10 gold year the Riksbank has signed a new CBGA but not made any decision as to further sales.

Tactical management

Within the framework of tactical management the Asset Management Department is able to deliberately deviate from the strategic allocation of assets for the purpose of achieving a higher return. For 2009 the Riksbank decided to also include a mandate to deviate from the adopted strategic sale of gold. The risks in the tactical management operations were not allowed to exceed SEK 695 million, measured in annual relative VaR, while the return target was set at a total of SEK 84 million. The Riksbank also decided that the tactical management would be discontinued if losses exceeded SEK 250 million.

Follow-up

The Riksbank's measures to counteract the financial crisis have had a great impact on the balance sheet total, which has shown a marked increase since early autumn 2008. The balance sheet total at the close of 2009 was of the same order as at the close of 2008 and amounted to SEK 708.8 billion.

Monetary policy operations

The Riksbank's lending to monetary policy counterparties in Swedish kronor against ordinary and commercial paper collateral is reported on the asset side of the Riksbank's balance sheet as 'Structural operations'. In order to deal with the liquidity surplus that arose in the market as a result of lending in Swedish kronor the Riksbank issued Riksbank certificates with one-week maturity. The liquidity surplus was also absorbed using fine-tuning operations in the form of deposits from the banks.

As the Swedish banks still needed immediate access to liquidity at the beginning of the year they opted to manage their surplus liquidity via fine-tuning operations. However, in the course of the year it became easier for the banks to borrow in the market, which meant that the monetary policy counterparties increasingly started to deposit their liquidity surplus in Riksbank Certificates (see Diagram 18). This is shown on the liability side of the balance sheet in the items 'Debt certificates issued' and 'Fine-tuning operations'.

The Riksbank's lending in Swedish kronor generated a positive net interest income in that the interest rate on lending exceeded that on borrowing for the debt certificates and fine-tuning operations. The greatest contribution to the positive net interest income was from the loans in Swedish kronor that the Riksbank had granted at a fixed rate of interest at the end of 2008, and which were still outstanding at the beginning of 2009. As the repo rate fell, the difference between fixed lending rates and variable deposit rates grew, generating interest income for the Riksbank. In 2009 the Riksbank also offered loans in Swedish kronor at variable rates (the repo rate plus an interest supplement), reducing the difference between deposit and lending rates, and thereby the Riksbank's interest income (see Diagram 19).

Demand for the Riksbank's loans at a variable rate decreased gradually during the spring. However, interest in the loans at fixed rates that the Riksbank offered on three occasions in the second half of the year was great. Thus, at the close of 2009 the outstanding loans in Swedish kronor were greater than at the turn of the year 2008/09. The Riksbank's interest income from this lending exceeded interest expense by SEK 1 453 million during the year (see Table 4).

Demand for loans in US dollars ceased completely in the second half of the year and the US dollar loan facility was discontinued in November (see Diagram 18). This lending resulted in a positive interest income corresponding to SEK 156 million (see Table 4).

The lending in euros against collateral in national currencies that the Riksbank offered the central banks of Iceland and Latvia respectively via swap agreements was funded by borrowing against existing bond holdings in the foreign currency reserve. The loans had a positive impact on the Riksbank's interest income in 2009, totalling the equivalent of SEK 5 million.

The special liquidity assistance to Kaupthing Bank Sweden AB given in autumn 2008 was reimbursed in March 2009. The assistance generated positive interest income during the year of SEK 23 million.

A detailed summary of financial performance and outstanding loan amounts for all extraordinary measures taken by the Riksbank as a consequence of the financial crisis are presented in the annual report's financial statements, before the "Five-year overview".

Strategic management

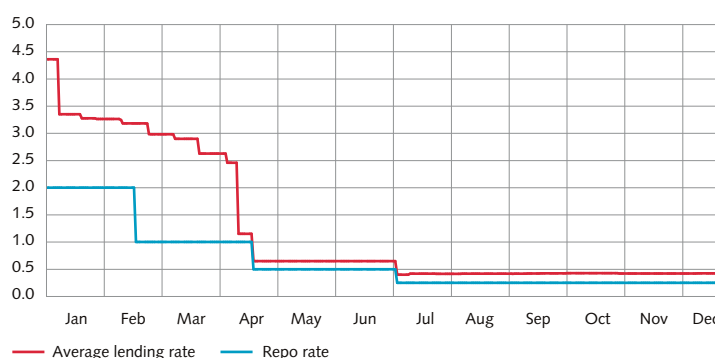
The market value of the Riksbank's gold and foreign currency reserves was SEK 312.8 billion at year-end. The reserves were made up of gold to the value of SEK 31.7 billion, assets in foreign currency to the value of SEK 275.4 billion and net receivables from the IMF to the value of SEK 5.7 billion.

The return on the foreign currency reserve was SEK -2.3 billion. The negative return is explained by an average appreciation of the Swedish krona against the currencies in the reserve of 2.7 per cent. This implied an adverse exchange rate effect of just under SEK 5.3 billion, which affected the total earnings of the foreign currency reserve. Excluding exchange rate effects, the return was SEK 3.0 billion, or 1.6 per cent. The relatively low return is explained by low interest rates in all markets in which the foreign currency reserve was invested.

In the course of the year the situation in the financial markets became more stable, which meant that interest rate differences between credit bonds and government bonds began to shrink. This was favourable for the return on securities included in the foreign currency reserve. The return on US

Diagram 19

Repo rate and average lending rate for the Riksbank's loans in Swedish kronor, 2009, per cent



Source: The Riksbank.

Table 4

Net interest income from monetary policy measures, SEK million

	Net interest income 2008	Net interest income 2009	Net interest income total
Lending in Swedish kronor	769	1 453	2 222
Lending in US dollars	70	156	226
Loan to Iceland	2	3	5
Loan to Latvia	2	2	4
Loan to Kaupthing	38	23	61
Loan to Carnegie	5	–	5
	886	1 637	2 523
Strengthening of the foreign currency reserve	0	–199	–199
Total	886	1 438	2 324

Source: The Riksbank.

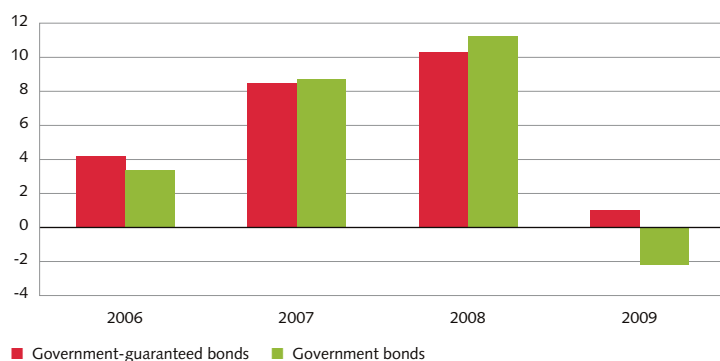
government-guaranteed securities was 3.2 percentage points better than the return on US government securities (see Diagram 20).

The market value of assets in the part of the foreign currency reserve that constitutes the approved strengthening was SEK 93.2 billion at year-end. The year's loss on this component was SEK -201 million, of which just over SEK 199 million is negative net interest income (see Table 4) and just over SEK 1 million is direct borrowing costs.

In the course of the year the Riksbank sold 11.3 tonnes of gold to the value of SEK 2.6 billion, within the framework of the Central Bank Gold Agreement. Despite the sale, the value of the Riksbank's gold holdings increased by 1.7 billion to SEK 31.7 billion. The increase is explained by the rise in the gold price during the year (see Diagram 21).

Diagram 20

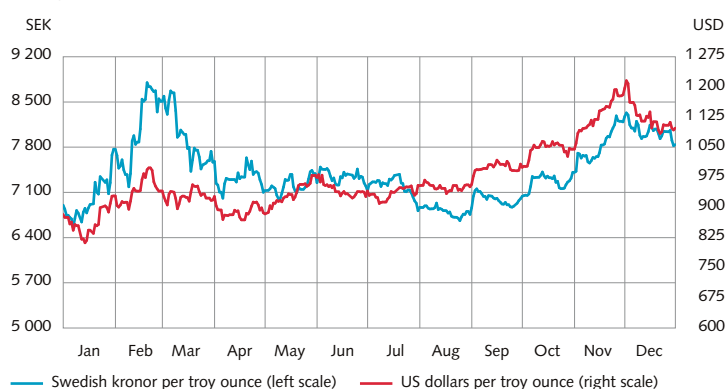
Return on US government securities and government-guaranteed securities, 2006–2009, per cent



Source: The Riksbank.

Diagram 21

Gold price movements, 2009



Note: One troy ounce is equivalent to about 31 grammes.

Source: The Riksbank.

The market value of assets in the part of the foreign currency reserve that constitutes the approved strengthening was SEK 93.2 billion at year-end. The year's loss on this component was SEK –201 million, of which just over SEK 199 million is negative net interest income (see Table 4) and just over SEK 1 million is direct borrowing costs.

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The market value of the Riksbank's receivables from the International Monetary Fund (IMF) was SEK 30.9 billion at year-end. Return on this component, excluding exchange rate effects, was SEK 12 million for the year.

At year-end the total value of the other financial assets was SEK 198 million. Return on this component, excluding exchange rate effects, was SEK 276 million for the year.

Tactical management

Tactical management operations cover the component of the Riksbank's asset management that refers to deviations in the composition of assets in relation to their strategic allocation. Income from the tactical management operations also includes the Riksbank's own securities lending, regardless of whether its purpose is to generate return or to free assets in foreign currency for use in the monetary policy activities.

Table 5

Return on the Riksbank's asset management operations in 2009, SEK million and per cent

	Assets	Liabilities	Return	Return excl. exchange rate effects	Return excl. exchange rate effects (%)
Gold and foreign currency reserves incl. IMF	338 050	118 293	1 573	2 970	1.34
Gold reserve	31 691	–	4 366	–	–
Foreign currency reserve	275 449	93 067	–2 302	2 958	1.57
of which strengthening from June onwards	93 166	93 067	–199	–199	–0.36
IMF	30 910	25 226	–491	12	0.39
Other financial assets	198	3	276	276	–
Monetary policy measures	369 327	363 341	1 637	1 637	–
Total	707 575	481 637	3 486	4 883	–

Note: Percentage returns are expressed on an annual basis.

Source: The Riksbank.

The financial crisis and the measures taken by the Riksbank in response to it affected the tactical management in 2009. Since the Riksbank used parts of the foreign currency reserve to finance the extraordinary measures the possibility of implementing tactical transactions was limited.

In the first half of the year the Riksbank borrowed against a large part of the gold and currency reserve, mainly US dollar assets, to fund monetary policy lending. This means that the Riksbank conducted repos, i.e. bought foreign currency and sold gold or bonds and undertook to buy back gold or bonds at a later date (all transactions in a repo are conducted with the same market participant). This borrowing was profitable since the demand for the assets used by the Riksbank as collateral was great.

All in all, the tactical management generated a positive return of SEK 425 million, which is considerably higher than the target of SEK 84 million (see Diagram 22). Of the positive return, 37 per cent can be attributed to lending of securities and 63 per cent to other tactical management operations.

Asset management risks

Turbulence on the financial markets also affected the Riksbank's risk exposure in 2009. However, markets stabilised in the later part of the year, leading to lower volatility in both the fixed income and foreign exchange markets. Volatility in most fixed income markets gradually reverted to the same levels as before the financial crisis. The gold price, on the contrary, fluctuated sharply during the year and rose to record levels in the autumn.

All in all, the Riksbank's total market risk for the gold and foreign currency reserves (measured as Value-at-Risk) diminished, even though towards the end of the year it was still at far higher levels than before the financial crisis. This is mainly explained by the Swedish krona still being very volatile in relation to the currencies in the foreign currency reserve.

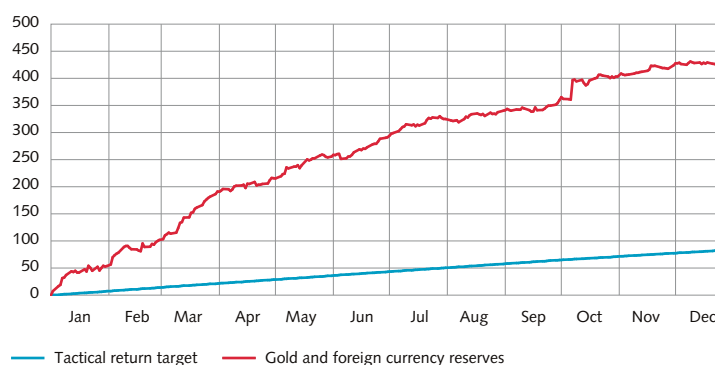
The risk in the tactical management was also considerably affected during the year by the high volatility in the fixed income markets. As the fixed income markets and asset prices became more stable the relative risks (i.e. the differences in risk level for the tactical management operations in relation to the benchmark index) fell. During the year tactical risk-taking, measured as relative Value-at-Risk, averaged SEK 283 million (see Diagram 24).

Risks associated with extraordinary measures

The risks of the extensive lending offered by the Riksbank to Swedish banks for liquidity support and monetary policy purposes were limited by the borrowers, the monetary policy counterparts, as usual providing securities as collateral for the loans. The Riksbank accepts securities with a credit rating of A- or better, but the majority of the collateral has a credit rating of AAA, which is the best.

Diagram 22

Return on the gold and foreign currency reserves over benchmark index, 2009, SEK million



Source: The Riksbank.

Diagram 23

Value-at-Risk for gold and foreign currency reserves excluding special drawing rights with the IMF and monetary policy repos, SEK billion



Note: The diagram shows two different VaR series. One series (blue) shows unweighted VaR, where historical price movements are assigned the same weight. In the weighted series (red) price movements close in time are assigned a larger weight than movements farther back in time, which means that changes in the financial markets have a faster and clearer impact on VaR calculations.

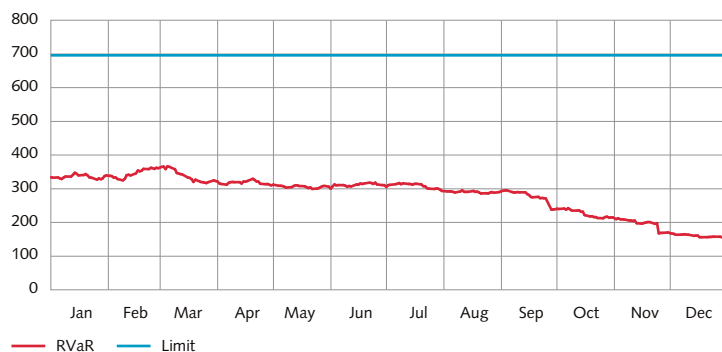
Source: The Riksbank.

The type of security most often used as collateral is covered mortgage bonds (see Diagram 25). Their share of the Riksbank's total collateral decreased, however, during the year in favour of treasury bills, government bonds and Riksbank certificates, but on average constituted 73 per cent of all collateral. The Riksbank also accepts securities issued by companies and asset-backed securities. However, as in the previous year, these types of security were used to a lesser extent.

The majority of securities used as collateral are denominated in Swedish kronor, but the Riksbank also accepts securities in foreign currencies. The percentage of securities in Danish and Norwegian kronor increased during the year. The lending in euros to the Icelandic central bank was further secured with Icelandic kronor. At the beginning of the year the Icelandic krona weakened substantially against the euro, undermining the value of the

Diagram 24

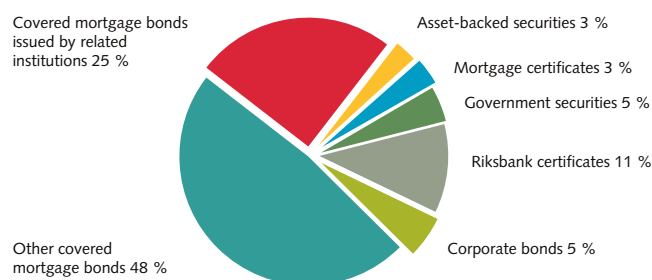
Relative Value-at-Risk for the gold and foreign currency reserves, SEK million



Source: The Riksbank.

Diagram 25

Collateral by type of security, average, 2009



Source: The Riksbank.

Riksbank's collateral for the loan. Consequently, at the end of March the Riksbank requested and obtained supplementary collateral for the loan in accordance with the current practice of making higher requirements concerning the value of the collateral to compensate for exchange rate risk when a borrower uses collateral in a currency other than the loan currency.

Despite continued turbulence in the financial markets the Riksbank did not suffer any credit losses.

The extensive measures meant a workload that was at times very heavy, and the operational risks were higher than normal. Despite this, the number of erroneous transactions and breaches of limits was at the same low level as before the financial crisis started. All in all, the Riksbank was able to satisfactorily manage the risks associated with the extraordinary measures.

Asset management costs

The costs of asset management include both costs of managing the gold and foreign currency reserves and costs of implementing monetary policy. In addition to transaction costs charged directly to the return on assets, the total costs for asset management were SEK 97 million. This corresponds to 1.4 basis points (hundredths of a per cent) of the value of the assets managed, which is considerably lower than in 2008, when the Riksbank's assets grew at the end of the year.



In September 2009 the Riksbank arranged a conference to mark the tenth anniversary of the Bank's formal independence. Conference participants focused on the fact that during this period the Riksbank had become considerably more open in its decision-making, which strengthens the credibility of the Riksbank's objectives and facilitates examination of its activities.

■ Organisation and management

In 2009 the Riksbank continued to work towards its vision of being among the best. Several departments worked further on the strategic review of day-to-day asset management in the spirit of the vision. Legal support and analysis of financial markets and Swedish banks, respectively, were given a new position in the organisation to enable further adaptation of internal work processes to the needs of the organisation. In addition, a new function for internal control was set up in the General Secretariat. The regular follow-up and evaluation showed that the Riksbank achieved good results in following its vision and strategic plan for the year.

The Sveriges Riksbank Act, Rules of Procedure and Instructions lay down the Riksbank's objectives, tasks and organisation. The Riksbank's vision specifies overall goals and focus for the Bank's activities over the coming ten years in the endeavour to be among the best with regard to quality and efficiency to maintain a high level of confidence.

Organisational structure of the Riksbank

The Riksbank was divided into seven departments in 2009. Three of the departments had direct focus on the Bank's main tasks: the Monetary Policy Department, the Financial Stability Department and the Asset Management Department.

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 General Secretariat chairs the Management Group.

Review of the Riksbank's asset management

In its consultation response regarding the report "Riksbankens finansiella oberoende" (The Riksbank's financial independence) (SOU 2007:51, Fi2007/6427) the Riksbank made it clear that there was reason to review the size of the foreign currency reserve and the degree of currency risk in the Bank's financial assets. At the same time the Riksbank announced its intention to conduct a general review of the guidelines for asset management and report the results in the Annual Report for 2009 at the latest. However, the review will continue into 2010.

The strategic review of the Riksbank's asset management started in 2008 and continued in 2009. Within the framework of this review the Asset Management Department, the Financial Stability Department and the General Secretariat are analysing different aspects of asset management to determine which assets the Riksbank needs and how they are best managed. The results will act as a guide for both the focus and resources of asset management in the coming years.

The review covers an area that is highly complex and to a great extent affected by the ongoing financial crisis. As a consequence of the crisis, developments during the year were quite different from what had been foreseen in the report of the Inquiry,

which the Riksbank must take into account. In the course of the crisis it became clear that the problems regarding management of the foreign currency reserve need to be seen from a number of entirely new perspectives. These are of such significance to the review that they need to be studied thoroughly and carefully before any conclusions can be drawn. Consequently, the review needs to take longer than was estimated in the original plan.

Minor changes in the structure of the organisation

During the year the Riksbank made a number of minor changes to further adjust the organisational structure to the needs of the organisation, thereby ensuring effective decision-making and preparation processes.

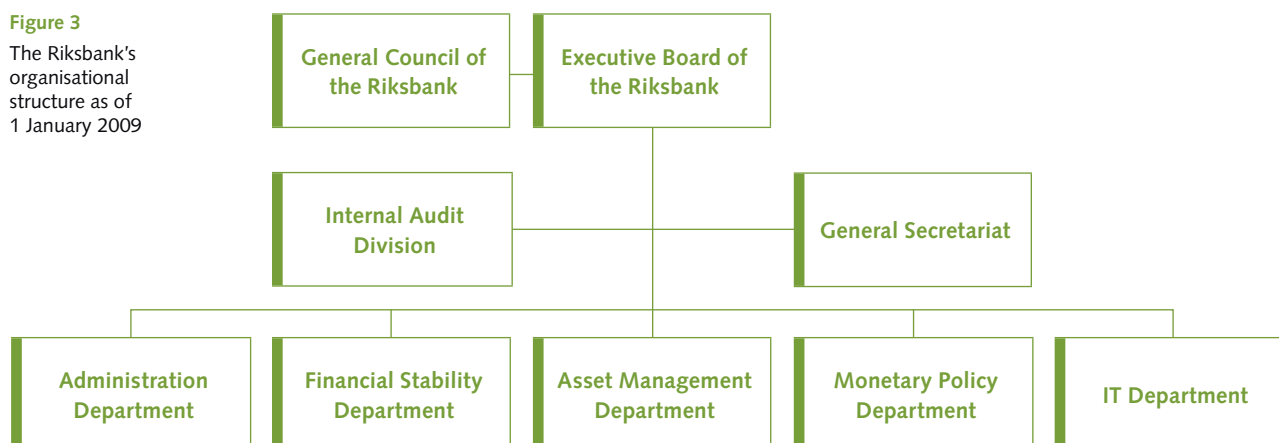
The Legal Secretariat in the General Secretariat was formally closed down in February, and the Riksbank's lawyers joined departments and divisions in the Bank to integrate the legal functions with the operational areas most in need of legal services. Two lawyers moved to the Asset Management Department, one to the Financial Stability Department and two to the Secretariat of the Executive Board at the General Secretariat. The chief legal counsellor is located in the General Secretariat.

In April activities in the Banking and Financial Market Division in the Financial Stability Department were divided into two parts to focus the Riksbank's financial analysis even more clearly on the borrower structure and credit risk of the Swedish banks. The part of the Division that analyses financial markets formed one separate Division; the Financial Market Division. The part that is responsible for analysing the banks was amalgamated with the Macroprudential Division.

During the year the Riksbank started to develop a new organisation for risk, governance and control issues. In August the Secretariat of the Executive Board in the General Secretariat was given the responsibility for coordination of internal control. The coordination will facilitate the work of the Executive Board by maintaining internal control of the Riksbank's activities and make it possible to adapt to the rules announced in this area. In November the Executive Board decided to establish a central Risk Division in the General Secretariat as of 1 January 2010 (see the box "The Riksbank's internal control").

Figure 3

The Riksbank's organisational structure as of 1 January 2009



The departments of the Riksbank and their tasks

■ Administration Department

The Administration Department is responsible for the Riksbank's work on cash management, personnel development and recruitment, office and property services, transport, security, budget documentation, bookkeeping and payroll administration.

Head of Department: Agneta Rönström. Average number of employees (FTE): 74.

■ Financial Stability Department

The Financial Stability Department is responsible for analysing the stability and efficiency of the financial system. It provides a basis for the decisions made to fulfil the task of promoting a safe and efficient payment system. The Department regularly analyses the risks and threats to the stability of the Swedish financial system and is responsible for managing the risks that arise in the Riksbank's financial activities. The work of the department is primarily analysis of the major banks, equity and credit markets as well as market structure.

Head of Department: Mattias Persson. Average number of employees (FTE): 52.

■ Asset Management Department

The Asset Management Department manages the Riksbank's gold and foreign currency assets. It administers and settles transactions in the management of the Riksbank's financial assets as well as regularly evaluates and measures the results and risks in this management. In addition, the department is responsible for the Riksbank's RIX payment system for payments between banks.

Head of Department: Sophie Degenne. Average number of employees (FTE): 41.

■ Monetary Policy Department

The Monetary Policy Department is responsible for the economic analysis that provides a basis for decisions made to meet the price stability target. It also conducts monetary policy and foreign exchange policy operations in accordance with monetary policy decisions. In addition, the department has the main responsibility for all analysis of interest and foreign exchange rates. 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.

Head of Department: Anders Vredin (up to and including 12 November 2009). Acting Head of Department: Jesper Hansson. Average number of employees (FTE): 76.

■ 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.

Head of Department: Patrick Bailey. Average number of employees (FTE): 4.

■ IT Department

The IT Department's task is to provide cost-effective and user-oriented IT support to the Riksbank's different areas of activity. The department mainly works with the IT system architecture and infrastructure, and is responsible for the operation, maintenance, purchasing, development, change and adaptation of applications and systems, as well as for general IT security and the PC environment.

Head of Department: Hans Ohlson. Average number of employees (FTE): 58.

■ General Secretariat

The General Secretariat is responsible for coordinating day-to-day operations and supporting 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. In addition, it coordinates the Riksbank's communication activities and international work. There are also functions within the department for regulatory compliance assurance, business continuity coordination and legal support.

Head of Department: Kai Barvèll. Average number of employees (FTE): 40.

The average number of employees refers to the number at the end of the year.

Management of activities

The Riksbank's vision

The Riksbank shall be among the best with regard to quality and efficiency in comparison with both other central banks and other authorities, academic institutions and private companies, to maintain a high level of confidence. The Riksbank is to be an organisation prepared for change, that carries out what it is most suited for and that evaluates its activities. The Riksbank is to be open and communicate so that a wide range of external parties can benefit from knowledge of the Bank's function and performance. The Bank is to have professional employees with leading edge competence and broad expert knowledge as well as great understanding of the wider context and its correlations.

According to the vision, the Bank must also have a good working climate that motivates and inspires commitment. The Riksbank is to be a workplace to be proud of, where each employee has and assumes personal responsibility and can clearly see his or her contribution to the bank's overall objective. It must be possible to combine work and private life in a positive manner.

In preparation for the 2010 business plan the Executive Board and the Management Group discussed how the vision, which has been in place for three years, has functioned to date as a starting point for the Riksbank's planning and follow-up. This evaluation showed that the Riksbank is working in line with the vision and that the goals and priorities the vision contains continue to be relevant to all activities. Accordingly, they can well be used as a guide to operational policy in coming years. However, at the same time it is important to specify further what the

vision implies for different areas; for example by clarifying who are "the best" in every area and perspective, and compare the Riksbank with them.

Management of activities

The Riksbank's internal management of activities is based on a chain of planning with a vision in the long term, strategic objectives in the medium term and an annual business plan linked to the strategic objectives and vision. The strategic objectives form the hub of the Riksbank's planning and follow-up work. In 2009 they were divided into seven functions: monetary policy, financial stability, payment system, cash management, asset management, statistics and bank-wide functions.

The bank-wide function was further divided into eight target areas: communication, international cooperation, personnel, management and governance, IT, administrative support and service, environment and resources. For each target there are one or more indicators that together provide a picture of the Riksbank's performance in that area. For example, two indicators – the number of discovered counterfeit banknotes and quality assessment (durability) of circulation banknotes handed in – indicate how close the Riksbank is to achieving the target of banknotes and coins of high quality. The indicators also function as a basis for discussions on focus and priorities.

The Riksbank is a decentralised organisation where the heads of department report to the Executive Board for governance and control of their own activities, including their efficiency, performance and risk management. The Executive Board has instructed the Internal Audit Department to carry out an independent evaluation of internal control, risk management and management processes.

The Riksbank's internal control

Since February 2009 the Riksdag Administration has been carrying out a review of the Financial Administration Regulations (Riksdag Administration, Parliamentary Ombudsmen and Swedish National Audit Office) Act (2006:999) on behalf of the Riksdag Board. The review also covers the Riksbank and includes drawing up a proposed amendment to the Sveriges Riksbank Act stipulating that the Executive Board of the Riksbank issues statements on internal control at the Bank. Equivalent requirements already apply to authorities under the Government.

The Riksbank endeavours to perform its duties effectively, in accordance with current legislation and with reliable, true and fair reporting. This requires good internal control of activities. During the year the Riksbank started a conscious initiative to

create a more coordinated and well-documented way of working with these issues. The initiative is to make it possible for the Management of the Riksbank to reliably follow and report on legal compliance.

An important starting point was to create a joint working method as regards identifying and managing operational risks. Risk is a natural part of the Riksbank's activities, since many factors that affect them cannot be controlled or predicted. Working on a continuous basis to identify, evaluate and manage risks improves the conditions for dealing with undesired events when they occur. This also increases the effectiveness of the Riksbank's work, gives better opportunities to implement the Bank's tasks and contributes to achieving its objectives. During the year the Riksbank's departments analysed operational risks at all

levels. The risk analyses were consolidated into an overall picture of the Bank's operational risks. Action plans to limit the identified risks were thereafter integrated with the business plan for 2010. The departments also updated and supplemented their business continuity plans during the year.

Moreover, the Riksbank conducted a review of the internal organisation for risk-related issues. In light of the results of the review the Executive Board decided to establish a central Risk Division in the General Secretariat as of 1 January 2010. The division will coordinate the work on financial and operational risk, business continuity, information security, personal security as well as governance and control. The aim is to achieve an improved overall view and more effective processes.



Linda Gustafsson, Kristoffer Björnström and Britt-Marie Svensson (Risk Division at the General Secretariat).

Mainly positive results in 2009

The Riksbank is working actively to follow the vision and strategic plan. During the year the Executive Board received two follow-up reports containing the status of the indicators, the priority action plans and the budget.

Most strategic objectives achieved

In all, 75 indicators were used in the 2009 business plan. An evaluation showed that most showed a satisfactory result in the first part of the year. This applies, for example, to inflation expectations, which exceeded the inflation target by only 0.2 percentage points on a five-year horizon, availability of the payment system, which was 100 per cent, and return on the Riksbank's assets, which exceeded the target by SEK 174 million already in the spring.

However, some indicators pointed to poorer performance. For example, the net errors and omissions item in the balance of payments statistics was far more than the target of 5 per cent of the current account turnover, but after the middle of the year the balance of payments reported an errors and omissions item that was below target. In addition, the follow-up of the priority action plans for 2009 showed that the ongoing financial crisis entailed continued severe strain on staff resources and led to large parts of the development work having to be reprioritised. Consequently, the planned consolidation and professional development were not given as much scope in the activities of the Bank.

The strategic objectives regarding the right competence and a good working climate were mainly met in that most of the indicators in the year's employee survey indicate that the employees are

strongly committed to the activities of the Riksbank and consider that they work in a well-functioning organisation. In addition, confidence in immediate superiors and the Governor of the Riksbank is far above the corresponding average for Sweden's working population, which is a very good result within the strategic objective of good management. One area that needs further development, however, is the feedback to individual goals within the framework of professional development plans.

Great confidence among different groups of society

The Riksbank also uses external surveys to measure how well the Bank has achieved its objectives. The confidence surveys carried out in 2009 among the Riksbank's most important target groups, such as members of the Riksdag, the financial markets and other authorities, show that confidence in the Riksbank continues to be great. External measurements of public confidence in financial institutions during the year also show similar results.

According to the confidence barometer published by Medicakademin in the autumn, public confidence in the Riksbank as a social institution is also high. The Bank comes second in this survey, after universities/higher education institutions. The SOM Institute's annual survey, however, indicates somewhat lower public confidence. The Riksbank is placed fifth among Swedish social institutions – after healthcare, universities/higher education institutions, radio and television and the police. This is one place below the year before. The results of the survey were reported in 2009 but are based on a questionnaire conducted mainly in early autumn 2008 when the financial crisis had just broken out.

Improved image and great transparency

The Riksbank makes regular analyses of its media image. Since the second half of 2008 the Bank's communication has been characterised by "emergency communication" and a strong media presence. At the same time the Riksbank's image has improved in the media. In 2009 the Bank was perceived to a greater extent as a modern, competent, clear and open organisation. According to a recent study by the OECD the Riksbank was also distinctive among the world's central banks as regards transparency about its policy objectives and decisions as well as its economic analysis and decision-making process.

■ Employees

The year's employee survey showed that the Riksbank has strongly committed employees in a well-functioning organisation. In early 2009 the Riksbank initiated a competence drive that focused on extending the competence concept and developing a career ladder. A joint trainee programme was also started with Finansinspektionen and the Swedish National Debt Office.

The Riksbank endeavours to be an attractive workplace that makes good use of its employees' motivation, effectiveness and job satisfaction. All employees are to experience a sense of participation and understand the importance of their personal contribution to the organisation.

Strong commitment and strengthened professional development

In autumn 2009 an employee survey showed that the Riksbank's employees are strongly committed in their work and work in a well-functioning organisation. The analysis indicates that professional development is the area of greatest significance for employees' commitment and consequently for the strength of the organisation.

The employee survey results are entirely in line with the competence drive that was started at the beginning of 2009. The purpose of the drive was partly to create a uniform view of professional development and partly to increase awareness of the professional development opportunities that exist at the Riksbank. Some of this work was devoted to extending the concept of competence development to not only include courses and professional training, but also to include the development that employees experience when they try out new tasks of work or work with new colleagues. This became particularly clear during the financial crisis, when many employees dealt with new and complex tasks with very good results.

In order to achieve a more common approach to different development paths, and make the individual development process in different departments clearer and more transparent, a career ladder has also been developed. The career ladder defines different stages of career development in terms of the complexity and level of responsibility of the tasks of work. The career often has a natural link to the pay trend, so each rung of the career ladder has an associated salary range.

The Riksbank has also started a joint trainee programme with Finansinspektionen and the Swedish National Debt Office. The programme aims to develop cooperation and skills transfer between the agencies. Altogether 542 economists applied for the 6 trainee positions. The candidates have now started work at the respective agency and experiences so far are very good.

Diversity an important factor in competence management

Groups consisting of people with different experiences and perspectives are more efficient and dynamic than groups consisting of individuals who are very similar. Achieving well-structured working groups is therefore an important part of the Riksbank's long-term competence management. During the spring diversity at the Riksbank was measured, in cooperation with Statistics Sweden. The result shows that 14 per cent of Riksbank employees are foreign-born, which corresponds to the diversity in Swedish working life. The year's employee survey shows that employees perceive that they make good use of each other's different qualities as regards life experience, perspective and personality to a greater extent than in the previous year.

Increased confidence in the leadership and a lower stress level

According to the employee survey, confidence in the Riksbank's leadership has increased, and nine out of ten have confidence in the Governor of the Riksbank. Despite the fact that the workload in 2009 was high due to the ongoing financial crisis, the survey shows that many employees experienced a lower stress level than in the previous year. The perceived stress level is now below the average for Sweden's working population. The results of the employee survey also show that work on individual targets and their follow-up is an area that the Riksbank still needs to develop.

Good results in the work environment

In the spring Haluxa, the Riksbank's supplier of occupational health services, evaluated systematic work environment management at the Bank. The evaluation showed very good results, which now form the basis of the 2010 work environment plan. The ambition is to further strengthen the health focus of the Riksbank's work environment activities over the next year.

The Riksbank organises a large number of preventive health care activities that are well attended by employees. Employees are offered the opportunity to participate in various forms of physical fitness activities with trained instructors. To be able to identify and deal with any problems, for example concerning alcohol, all employees were given the opportunity during the year to participate in a seminar on the Risk Consumption Model developed by the National Institute of Public Health.

Sickness absence among Riksbank employees was 2.5 per cent in 2009, which is a marginal increase compared with 2008.



Stefan Ingves

■ Governance

The Riksbank is led by an Executive Board appointed by the General Council. The General Council is in turn appointed by the Riksdag, the Swedish parliament. The Executive Board has a joint responsibility for the strategic management of the Bank, while the General Council mainly exercises a supervisory function.

The Executive Board of the Riksbank

The Riksbank is led by an Executive Board appointed by the General Council. The Executive Board consists of six members appointed for a period of five or six years. The General Council appoints a 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 a Deputy Governor of the Riksbank. The General Council determines salaries and other employee benefits for the members of the Executive Board. The Executive Board consists of the following members:



Svante Öberg



Karolina Ekholm



Lars Nyberg



Lars E.O. Svensson



Barbro Wickman-Parak

■ Stefan Ingves

Term of office six years from 1 January 2006

Stefan Ingves is Chairman of the Executive Board and Governor of the Riksbank. The heads of department report to Ingves and he is responsible for presenting proposals regarding appointments to the posts approved by the Executive Board. Ingves is a member of the European Central Bank (ECB) General Council and a member of the Board of Directors of the Bank for International Settlements (BIS). He is also Sweden's Governor in the International Monetary Fund (IMF). Ingves holds a PhD in economics and prior to taking up the post of Governor of the Riksbank he headed the Department for Monetary and Financial Systems at the IMF. Prior to this he had been Deputy Governor of the Riksbank, Director General of the Swedish Bank Support Authority, and Under-Secretary and head of the Financial Markets Department at the Ministry of Finance.

■ Svante Öberg

Term of office six years from 1 January 2006

Svante Öberg is First Deputy Governor of the Riksbank. He represents the Riksbank in the EU's Economic and Financial Committee (EFC) and in the ESCB's International Relations Committee. Öberg is an economist and prior to taking up his post as Deputy Governor of the Riksbank he was the Director General of Statistics Sweden. Before this he had been Director General of the National Institute of Economic Research, State Secretary at the Ministry of Finance and an adviser at the IMF.

■ Karolina Ekholm

Term of office six years from 15 March 2009

Karolina Ekholm is Deputy Governor of the Riksbank. She is the Governor of the Riksbank's alternate on the ECB General Council and participates together with the Governor of the Riksbank in BIS board meetings and BIS Governors' meetings. Ekholm is an associate professor of economics and prior to taking up her post as Deputy Governor she was a researcher at the Department of Economics at Stockholm University. Before that she was a researcher at the Stockholm School of Economics and the Research Institute of Industrial Economics.

■ Lars Nyberg

Term of office six years from 1 January 2006

Lars Nyberg is Deputy Governor of the Riksbank. He has been appointed by the Government to the Board of Finansinspektionen (the Swedish Financial Supervisory Authority) and is the Riksbank's representative in the G 10's Committee on the Global Financial System and the ECB's Banking Supervision Committee. Nyberg represents the Riksbank in the field of financial stability. Nyberg is an associate professor in economics and has previously been Deputy CEO at Svenska Handelsbanken and Föreningssparbanken and CEO of Länsförsäkringsbolagens förening.

■ Lars E.O. Svensson

Term of office six years from 21 May 2007

Lars E.O. Svensson is Deputy Governor of the Riksbank. He represents the Riksbank in the OECD Working Party Three. Svensson is an affiliated professor at the Institute of International Economics (IIES) at Stockholm University. He was professor at Princeton University from 2001 to 2009 (on leave of absence from 2007 to 2009). Prior to this he was a professor at the IIES at Stockholm University. He was an economic advisor to the Riksbank from 1990 to 2007.

■ Barbro Wickman-Parak

Term of office six years from 21 May 2007

Barbro Wickman-Parak is Deputy Governor of the Riksbank. She represents the Riksbank in the Nordic-Baltic constituency's committee for IMF cooperation. Wickman-Parak is an economist and was previously chief economist at the mortgage institution SBAB and an economist at the National Institute of Economic Research and at Sweden Post's economic secretariat. She worked at the Riksbank from 1970 to 1985.

The Executive Board's tasks

The Executive Board has joint responsibility for the strategic management of the Bank. The role of the Executive Board as strategic decision-maker entails a focus on central decisions on monetary and exchange rate policy, important issues in the area of financial stability and the Riksbank's asset management. The Executive Board also makes the overall decisions on the Riksbank's activities, such as decisions on the Riksbank's strategic objectives, business plan and budget and how these are followed up. At the same time, the Governor has a clear mandate to lead the day-to-day operations of the Riksbank, as well as a responsibility to monitor whether the activities carried out are in line with the adopted plans and the budget. The heads of department prepare and submit proposals or background material to the Executive Board on matters to be decided by the Board.

The Executive Board makes decisions jointly at its meetings. The Chairman and the Vice Chairman of the General Council have the right to attend and speak at the Executive Board's meetings. They are not, however, entitled to vote or make proposals. Under the Sveriges Riksbank Act, the Riksbank is required to inform the Government prior to all important monetary policy decisions.

The Executive Board in 2009

The work of the Executive Board was strongly characterised by the financial turmoil. For example, the Executive Board held several extraordinary meetings at which it addressed issues related to developments in the financial markets. During the year the Executive Board held a total of 29 meetings, six of which were monetary policy meetings. The members of the Executive Board made more than 160 speeches, 24 of which were published. These speeches dealt with such subjects as current monetary policy and the state of the economy, financial stability and the financial crisis.

The Executive Board presents a written report on monetary policy to the Riksdag Committee on Finance twice a year. The most recent Monetary Policy Report at the time serves as this report and is supplemented by a public hearing with the Governor of the Riksbank at the Committee on Finance. During the year Governor of the Riksbank Stefan Ingves attended the Committee on Finance for two such hearings. Several Executive Board members also attended closed meetings of the Committee on Finance to speak about the financial crisis and international issues.

The members of the Executive Board also participated in conferences and seminars arranged by the Riksbank during the year. The Governor and the First Deputy Governor Svante Öberg spoke, for example, at a panel debate on lessons learned from the financial crisis in connection with the launch-

ing of Gunnar Wetterberg's book on the history of the Riksbank "Pengarna och makten" (The Money and the Power) in March. In September the Executive Board members participated in the conference "Ten years with an independent Riksbank". At this conference Deputy Governor Lars E.O. Svensson presented his essay on the role of transparency and communication in expectations about the Riksbank's policy rate and evaluation of monetary policy.

External assignments of the Executive Board members

If a member of the Executive Board wishes to take up employment or an assignment in addition to their employment at the Riksbank, this must be approved by the General Council. The following is a list of the external assignments of the members of the Executive Board at year-end 2009. These have been approved by the General Council and are reviewed every second year.

Stefan Ingves

- Member of the Board of The Toronto International Leadership Centre for Financial Sector Supervision

Lars Nyberg

- Member of the Board of Finansinspektionen

Lars E.O. Svensson

- Member of the Royal Swedish Academy of Sciences
- Member of Academia Europaea
- Foreign Member of the Finnish Academy of Science and Letters
- Foreign Member of the American Academy of Arts and Sciences
- Member of the Econometric Society
- Member of the European Economic Association
- Research Associate at the National Bureau of Economic Research
- Research Fellow at the Centre for Economic Policy Research
- Affiliated professor at the Institute of International Economics (IIES) at Stockholm University



*Johan Gernandt,
Chairman*

*Member of the Swedish Bar
Association, Law firm Vinge
Chairman, Arbitration
Institute of the Stockholm
Chamber of Commerce*



*Leif Pagrotsky,
Vice Chairman*

*Member of the Riksdag
(Social Democratic Party)*

The General Council of the Riksbank

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

The members of the General Council since 17 October 2006 are Johan Gernandt (Chairman), Leif Pagrotsky (Vice Chairman), Sinikka Bohlin, Peter Egardt, Susanne Eberstein, Bo Bernhardsson, Elizabeth Nyström, Anders Flanking, Karin Pilsäter, Kjell Nordström and Ebba Lindsö. The deputies are Pär Nuder (since 14 February 2008), Anne-Katrine Dunker, Carin Lundberg, Stephan Tolstoy, Fredrik Olovsson, Lena Sommestad, Ulla Löfgren (since 2 June 2008), Håkan Larsson, Carl B Hamilton (since 11 November 2008), Tommy Waidelich and Ulf Perbo (since 15 December 2008).



*Sinikka Bohlin
Member of the Riksdag
(Social Democratic Party)
President, Swedish Presidency
of the Nordic Council
Home language teacher*



*Peter Egardt
President & CEO, Stockholm
Chamber of Commerce*



*Susanne Eberstein
Member of the Riksdag
(Social Democratic Party)
Chair, Karolinska Institutet
University Board
Administrative Court
of Appeal Judge*

The General Council's tasks

The General Council appoints the members of the Executive Board and decides on their salaries and other terms of employment. It also adopts the Riksbank's Rules of Procedure and decides on the design of banknotes and coins.

One of the tasks of the General Council is to regularly monitor the Riksbank's activities and how the Executive Board conducts its business. One of the ways the General Council can perform its supervisory role is through the Chairman and Vice Chairman having the right to attend and speak at the Executive Board meetings, although they are not allowed to submit proposals or vote. The General Council also has an Audit Unit that, among other things, examines how members of the Executive Board perform their duties and examines the Riksbank's closing procedures with regard to the calculation of the Riksbank's profits. The Audit Unit's work is carried out by an authorised public accountant procured by the Riksbank.

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.

The General Council submits consultation responses within its field of competence and presents proposals, in consultation with the Executive Board, to the Riksdag and the Government regarding amendments to statutes or other measures in its sphere of responsibility.

For some years the Chairman and Vice Chairman have twice a year submitted an account to the Riksdag Committee on Finance concerning the work of the General Council, coming problems and questions for the Riksbank and the Executive Board members' performance of their duties.



*Bo Bernhardsson
Member of the Riksdag
(Social Democratic Party)
Journalist*



*Elizabeth Nyström
Former Member of the
Riksdag (Moderate Party)
Self-employed*



*Anders Flanking
Secretary General,
Centre Party*



*Karin Pilsäter
Member of the Riksdag
(Liberal Party)
Chair, Committee on
Industry and Trade
Chief Financial Officer*



*Kjell Nordström
Former Member of
the Riksdag (Social
Democratic Party)*



*Ebba Lindsö
Graduate in business
administration*

The General Council in 2009

During the year the General Council held 12 meetings.

At its meeting on 30 January 2009 the General Council appointed Karolina Ekholm as the new Executive Board member after Irma Rosenberg, whose term of office expired at the end of 2008. The decision was preceded by an extraordinary meeting of the General Council incorporating a hearing with Karolina Ekholm. At the meeting on 30 January Svante Öberg was also appointed as new First Deputy Governor after Irma Rosenberg. During the year the General Council also dealt with questions concerning terms of employment, staff loans and external assignments.

Consultation responses and communications to the Government and the Riksdag

In 2009 the General Council together with the Executive Board submitted a consultation response to the Riksdag Administration concerning the report "Bestämmelser om intern styrning och kontroll i riksdagens myndigheter" (Provisions concerning internal control in the Riksdag agencies) (2008/09:URF4). The report had proposed amendments to the Sveriges Riksbank Act that would to a great extent imply codification of current practice at the Riksbank. The amendments were accordingly recommended in the Riksbank's response. The response emphasised in particular the importance of the General Council continuing to decide on the Riksbank's Rules of Procedure while the Executive Board is to decide on the more detailed Instructions. Further, the response noted that, while it is proposed that the Executive Board Internal Audit Department is written into the Sveriges Riksbank Act, it is important that the General Council's Audit Unit is retained in the Act, even if it is preferable to change its name to the General Council Audit Function. Finally, the Riksbank welcomed the proposal that the Annual Report should be submitted by 22 February instead of 15 February. While processing the consultation response the General Council was also informed of the Riksbank's internal work regarding internal control.

During the year the Executive Board consulted three times with the General Council concerning communications to the Government and the Riksdag. The subjects of these consultations concerned exemption from the Public Procurement Act for certain procurement, credit to the International Monetary Fund (IMF) and transfer of pension rights to and from the European Central Bank.

Design of banknotes and coins

Four members of the General Council and four external experts make up the Drafting Committee for the Design of Banknotes and Coins. The Committee is headed by one of the members of the General Council, Peter Egardt. Experts on the

Committee are the State Herald, the Director of the Royal Coin Cabinet and one representative each of the National Museum of Fine Arts and the Royal Swedish Academy of Fine Arts. Since 2008 the task of the Committee is to prepare matters concerning graphic and artistic design of banknotes and coins in general.

The Executive Board informed the General Council regularly on the ongoing review of the Swedish banknote and coin series. The matter was also discussed in detail in the Drafting Committee, which co-arranged a seminar for a wide group of stakeholders on the theme of the design of the new banknote and coin series. One question that particularly concerned the Committee was whether a new banknote and coin series should include a twenty-kronor note or a twenty-kronor coin. The matter will be further discussed in 2010. During the year the Drafting Committee also dealt with the issue of a commemorative coin in 2010 on the occasion of the marriage of Crown Princess Victoria and Daniel Westling. After the Executive Board had decided to issue such a coin the General Council decided on its design at its meeting in December.

International work of the General Council

At the beginning of February 2009 the members of the General Council, together with members of the Executive Board, visited Helsinki on the occasion of the Landmark year 1809 (a government project to commemorate the bicentenary in 2009 of Sweden and Finland becoming two separate countries and to strengthen the affinity between Finland and Sweden). To commemorate the Landmark year the Riksbank issued a special minting of the one-krona coin that was presented to the Chairman of the Parliamentary Supervisory Council of the Bank of Finland. In November the General Council was host to the Parliamentary Supervisory Council of the Bank of Finland at a one-day seminar at the Riksbank. The seminar presented the role of the General Council, the Riksbank's organisation, the Riksbank's monetary policy and the financial crisis and the situation in the Baltic region.

The members of the General Council together with members of the Executive Board made a study visit to Washington D.C. and New York in autumn 2009 in order to obtain greater understanding of the economic and financial developments and measures taken during the financial crisis, as well as gaining deeper insight into various economic and financial institutions in the USA. The institutions visited were the Board of Governors of the Federal Reserve System in Washington, the Federal Reserve Bank of New York, the IMF, the US Treasury, the Council of Economic Advisers at the White House, the Peterson Institute for International Economics, CLS Bank International and the Fortress Investment Group.

In February the Chairman and Vice Chairman of the General Council visited the Bank of Russia and its Governor in Moscow for the purpose of learning more of how they dealt with the crisis in the banking system.

Some members of the General Council visited Tallinn in March to learn more about the Estonian situation in the global financial crisis. The group met the President of Estonia, the Speaker of the Parliament of Estonia, the Governor of the central bank and the Minister of Economic Affairs and Communications.

In December some members visited Riga to learn more of the Latvian situation in the same way. The group met the Prime Minister, the Governor of the central bank, the Chair of the Budget and Finance Committee and the Finance Minister.

Follow-up of the work of the Executive Board

The Chairman and Vice Chairman of the General Council followed the work of the Executive Board during the year. Among other things they participated in Executive Board meetings, which the Committee on Finance had stated to be one of the most important parts of the supervisory function of the General Council. In its evaluation of monetary policy in spring 2008 the Committee expressed approval and support for the work of the General Council in further developing its supervisory function. As part of this development the Chairman and Vice Chairman participated during the year in more informal meetings, including some preparatory meetings in the monetary policy process. The work of developing the role continues.

The members of the Executive Board normally participated in the General Council meetings and regularly contributed accounts of important decisions and events in the Riksbank's activities. For example, the Executive Board reported on current monetary policy and the work of monitoring stability in the financial system. The General Council was also regularly informed of the situation in the financial markets and of the measures taken by the Riksbank during the financial crisis. In May the General Council was given access to the Executive Board's discussions on strengthening the foreign currency reserve and had no comments in response to the information. The General Council was also informed about the budget, the business plan, the development of risks and performance in asset management, the results of the Riksbank's employee survey, the work of gender equality and diversity, other outcomes of activities and about the activities of the Internal Audit Department. At the December meeting the General Council was informed of the need for an inquiry to determine the changes that may be needed in the financial regulatory framework as a result of observations made during the financial crisis.

The General Council was informed of the consultation responses decided on by the Executive Board during the year. The Executive Board also informed the General Council of its decisions concerning goals and strategies for international work and of important international meetings, for example with the IMF.

During the year the Executive Board presented information on changes in the monetary policy communication policy. The General Council had no objections to the introduction of the policy. The General Council was also given information about changes in the Instructions due to the reorganisation of the Bank's legal services, coordination, support and control on risk issues, as well as the work on international issues. Moreover, the Executive Board was informed of the Riksbank's plans for a new Riksbank office in the Stockholm area.

To supplement the information at the meetings, the Executive Board invited the General Council to breakfast meetings to provide direct information after monetary policy decisions that were not close to the ordinary General Council meetings. The members of the General Council were also invited to the information seminars held by the Riksbank for the Riksdag's committees.

The Chairman and Vice Chairman of the General Council both spoke at the conference "Ten years with an independent Riksbank" arranged by the Riksbank in September. Other speakers included the present and former Governors of the Riksbank and the Chair of the Committee on Finance. Those invited to participate in the conference were representatives of the General Council, the Riksdag, central government agencies, the business sector and academic researchers.

The General Council's examination of the Riksbank's activities

The Audit Unit of the General Council worked during the year in line with the audit plan established by the General Council. The Audit Unit carried out a file interrogation of securities transactions and examined pledges received relative to the Riksbank's lending, implementation of adopted policies, asset management and exposure due to large exchange rate fluctuations and the Riksbank's proposed allocation of profits. The examination did not lead to any comments. The General Council was also informed of the Swedish National Audit Office examination of the Riksbank's activities.

During the General Council's regular follow-up of the work of the Executive Board members in 2009, no information came to light to give reason for the General Council to direct any criticism against the performance of their duties.

■ 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 5 November 2008 (Ref. no. 2008-786-ADM).

The rules for current recording of transactions are taken from the Bookkeeping Ordinance (2000:606) and the rules for annual accounts from the Guideline of the European Central Bank on the Legal Framework for Accounting and Financial reporting in the European System of Central Banks (ECB/2006/16). Under Chapter 10, Article 3 of the Sveriges Riksbank Act the Riksbank must apply the accounting guidelines of the European Central Bank System to the extent appropriate. The accounting policies have not been changed during 2009.

Basic accounting policies

The following basic accounting policies have been applied:

- The accounting shall reflect financial reality and be characterised by transparency.
- The valuation of assets and liabilities and income recognition shall be carried out prudently.
- 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.
- Assessment of assets and liabilities must be made on the assumption of a going concern.
- Income and expenditure will be recognised as income and expenditure in the accounting period in which they were earned or arose, regardless of when payment is made.
- The criteria for measuring balance sheet items and profit and loss items must be applied consistently.

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 booked on the trade date.

Balance sheet valuation rules

Gold and securities are recorded at the exchange rates and prices applying on the closing date.

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. Write-downs are made when the impairment loss is judged to be permanent. Revaluation is only allowed if the asset has a reliable and permanent value that materially exceeds the book value. Buildings are depreciated over a period of 50 years, other fixed assets over 5–10 years. Machinery and equipment, including computers, is depreciated over 3–7 years. Direct staff costs attributable to IT investments developed in-house 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 agreement 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 are still 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 for the entire duration of the transaction.

Banknotes and coins

The balance sheet item “Banknotes and coins in circulation” is 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 should be recognised in profit or loss 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.

Recognition of income

Realised gains and losses are recognised in the profit and loss account.

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

Unrealised losses are transferred to the profit and loss account if they exceed unrealised gains that may have been previously recorded 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 those with 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, i.e. 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 to 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 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	Note	31.12.2009	31.12.2008
ASSETS			
Gold	1	31 691	29 976
Claims on residents outside Sweden denominated in foreign currency		302 348	200 448
Receivables from the IMF	2	30 898	6 261
Balances with banks and security investments	3	271 450	194 187
Claims on residents in Sweden denominated in foreign currency	4	–	196 124
Lending to monetary policy counterparties denominated in Swedish kronor		368 802	266 462
Main refinancing operations	5	–	–
Fine-tuning operations	6	–	–
Structural operations	7	368 801	264 800
Marginal lending facility	8	1	0
Other lending	9	–	1 662
Other assets		5 997	7 201
Tangible and intangible fixed assets	10	406	421
Financial assets	11	521	524
Derivative instruments	12	136	8
Prepaid expense and accrued income	13	4 608	5 931
Other assets	14	326	317
Total assets		708 838	700 211

SEK million	Note	31.12.2009	31.12.2008
LIABILITIES AND CAPITAL			
Banknotes and coins in circulation		110 663	112 273
Banknotes	15	104 590	106 266
Coins	16	6 073	6 007
Liabilities to monetary policy counterparties in Swedish kronor		171 163	206 696
Deposit facility	17	56	32
Fine-tuning operations	18	171 107	206 664
Debt certificates issued	19	192 222	48 946
Liabilities to residents in Sweden denominated in Swedish kronor	20	–	104
Liabilities to residents outside Sweden denominated in Swedish kronor	21	70	189 248
Liabilities to residents in Sweden denominated in foreign currency	22	92 544	1 862
Liabilities to residents outside Sweden denominated in foreign currency	23	–	8 688
Counterpart of Special Drawing Rights allocated by the IMF	24	25 216	2 979
Other liabilities		662	9 998
Derivative instruments	25	3	9 254
Accrued expenses and prepaid income	26	606	697
Other liabilities	27	53	47
Provisions	28	251	264
Revaluation accounts	29	37 818	49 228
Equity capital		64 025	58 742
Capital	30	1 000	1 000
Reserves	31	63 025	57 742
Result for the year		14 204	11 183
Total liabilities and capital		708 838	700 211

Memorandum items, see Note 44.

■ Profit and loss account

SEK million	Note	2009	2008
Interest income	32	10 997	10 610
Interest expense	33	-2 796	-2 600
Net result of financial transactions	34	6 714	3 051
Fee and commission income	35	58	43
Fee and commission expense	36	-43	-8
Dividends received	37	55	45
Other income	38	16	824
Total net income		15 001	11 965
Staff costs	39	-342	-337
Administration expenses	40	-267	-264
Depreciation/amortisation of tangible and intangible fixed assets	41	-71	-68
Banknote and coin expenses	42	-117	-113
Other expenses	43	-	-
Total expenses		-797	-782
Result for the year		14 204	11 183

Cash flow statement

SEK million	31.12.2009	31.12.2008
OPERATING ACTIVITIES		
Cash flow from operating activities	16 912	9 928
Interest received	13 231	8 873
Interest paid	-2 796	-2 599
Net received from financial transactions	7 192	4 271
Fees and commission received	58	43
Fees and commission paid	-43	-8
Other income	16	11
Administration expenses paid	-746	-663
Cash flow from operating activities, assets	-40 641	-462 090
Gold	1 059	1 102
Receivables from the IMF	-26 845	-1 078
Security investments	-101 703	-6 468
Claims on residents in Sweden denominated in foreign currency	189 193	-189 193
Structural operations	-104 001	-264 800
Other assets	1 656	-1 653
Cash flow from operating activities, liabilities	21 106	440 184
Banknotes and coins in circulation	-1 610	-1 238
Liabilities to monetary policy counterparties in Swedish kronor	-35 533	206 553
Debt certificates issued	143 276	48 946
Liabilities to residents outside Sweden denominated in Swedish kronor	-189 178	189 166
Liabilities to residents in Sweden denominated in foreign currency	85 897	-
Liabilities to residents outside Sweden denominated in foreign currency	-7 437	-4 610
Other liabilities	25 691	1 367
Cash flow from operating activities	-2 623	-11 978

The table continues on the next page.

SEK million	31.12.2009	31.12.2008
INVESTING ACTIVITIES		
Acquisition and disposals of tangible and intangible fixed assets	-56	-37
Acquisitions and disposals of financial assets	3	-
Dividends received	55	45
Cash flow from investing activities	2	8
FINANCING ACTIVITIES		
Transfer to the Treasury	-5 900	-3 600
Cash flow from financing activities	-5 900	-3 600
Cash flow for the period	-8 521	-15 570
Cash and cash equivalents at beginning of period	12 399	27 235
Cash flow from operating activities	-2 623	-11 978
Cash flow from investing activities	2	8
Cash flow from financing activities	-5 900	-3 600
Exchange rate difference on cash and cash equivalents	-737	734
Cash and cash equivalents at end of period	3 141	12 399
SPECIFICATION OF CASH AND CASH EQUIVALENTS		
Balances with banks denominated in foreign currency, see Note 3	3 140	12 399
Main refinancing operations	-	-
Fine-tuning operations	-	-
Marginal lending facility	1	-
Total cash and cash equivalents	3 141	12 399

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 main 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 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 2008.

Note 1 Gold

	31.12.2009	31.12.2008
Quantity		
Troy ounces (million)	4.0421	4.4049
Price		
USD/ounce	1 096.1990	867.4480
SEK/USD	7.1521	7.8449
Book value	31 691	29 976

As of 31 December 2009, the Riksbank holds 4.0 million ounces (troy/oz) of gold, which is equivalent to 125.7 tonnes. In 2009 the Riksbank sold 0.4 million ounces of gold, which is equivalent to 11.3 tonnes.

Note 2 Receivables from the IMF

	31.12.2009	31.12.2008
Special drawing rights	25 685	2 401
Reserve position in the IMF		
Capital contribution (quota)	26 859	28 946
IMF krona account	-21 854	-25 311
Other receivables	208	225
Total	30 898	6 261

The Riksbank holds special drawing rights (SDR) of 2 291 million (199). In 2009 the Riksbank was allocated drawing rights totalling SDR 2 002.5 million, of which 1 776 million in August and 226.5 million in September. An amount corresponding to the total allocation of SDRs by the IMF is reported as a liability. See Note 24.

The Riksbank's total capital contribution (quota) to the International Monetary Fund amounts to SDR 2 395.5 million and is booked net of the IMF's account for Swedish kronor under the item 'Reserve position in the IMF'.

The item 'Other receivables' 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 shall be repaid by 1 January 2019.

At the end of 2009 the Riksbank also had a receivable from the IMF of SDR 16.3 million (16.3) for funds that the IMF may use for interest and credit losses due to delays. The IMF has made deduction 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. In January 2009, the Riksbank, in accordance with a proposal from the IMF and after receiving permission from the Riksdag, notified the IMF that it may use SDR 5.1 million of these funds to finance cancellation of Liberia's debt to the IMF.

Note 3 Balances with banks and security investments

	31.12.2009	31.12.2008
Balances with banks	3 140	12 399
Security investments	268 310	181 788
Total	271 450	194 187

This item consists mainly of foreign government securities and government-guaranteed securities as well as balances with foreign banks, such as time-limited loans and balances in bank accounts.

Bank deposits and securities are denominated in euro, US dollars, Pounds sterling, Australian dollars, Canadian dollars, Norwegian kroner and Japanese yen. The distribution is shown in the table below.

	31.12.2009	31.12.2008
Euro	138 476	95 518
US dollars	96 317	56 270
Pounds sterling	17 653	17 683
Australian dollars	9 529	10 834
Canadian dollars	9 473	9 018
Latvian lats	-	2 865
Icelandic krónur	-	1 997
Norwegian kroner	2	2
Japanese yen	0	0
Total	271 450	194 187

Balances with banks and security investments by maturity

Maturity	Balances with banks	Security investments
Up to 1 month	3 140	-
Over 1 month, up to 3 months	-	-
Over 3 months, up to 1 year	-	38 734
Over 1 year, up to 5 years	-	184 531
Over 5 years	-	45 045
Total	3 140	268 310

As part of its management of the foreign currency reserve, the Riksbank participates in automatic securities lending programmes with two custody banks, where these banks act on behalf of the Riksbank to lend the Riksbank's securities in exchange for other securities. The value of securities on loan as at 31 December 2009 amounted to SEK 26 717 million (34 835).

Note 4 Claims on residents in Sweden denominated in foreign currency

The Riksbank's lending denominated in foreign currency to monetary policy counterparties is reported here. The Riksbank's liquidity assistance lending in dollars to Swedish banks that was discontinued in October 2009 is reported under this item.

Note 5 Main refinancing operations

The Riksbank's regular monetary policy repo operations are reported under this item. This lending is made at the Riksbank's most important policy rate (repo rate), usually with a maturity of one week.

Note 6 Fine-tuning operations

This item is used to report lending aimed at fine-tuning liquidity in the financial system. This lending is usually overnight.

Note 7 Structural operations

This item is used to report the Riksbank's lending in Swedish kronor to monetary policy counterparties, usually with a longer maturity than main refinancing and fine-tuning operations. The purpose of this lending is either to satisfy the longer-term financing needs of the financial sector or to affect the Riksbank's structural position in relation to the financial sector. These operations are not intended to send monetary policy signals. Alternatively this lending can be at a fixed rate and with up to twelve months maturity, for the purpose of sending monetary policy signals that will contribute to lower interest rates on loans to companies and households. At the end of 2009 fixed rate lending amounted to SEK 295 301 million (–).

Note 8 Marginal lending facility

This item is used to report overnight loans to banks on their RIX accounts at the Riksbank.

Note 9 Other lending

The Riksbank's liquidity assistance to Kaupthing Bank Sverige AB was reported here. This receivable was settled in March 2009.

Note 10 Tangible and intangible fixed assets

	31.12.2009	31.12.2008
Land and buildings		
Cost of acquisition, 1 January	337	337
Acquisitions during the year	38	–
Divestments during the year	–	–
Cost of acquisition, 31 December	375	337
Acc. depreciation, 1 January	–134	–125
Depreciation for the year	–9	–9
Divestments during the year	–	–
Acc. depreciation, 31 December	–143	–134
Book value	232	203

The table continues in the next column.

Machinery and equipment		
Cost of acquisition, 1 January	598	567
Acquisitions during the year	18	37
Divestments during the year	–99	–6
Cost of acquisition, 31 December	517	598
Acc. depreciation, 1 January	–380	–327
Depreciation for the year	–62	–59
Divestments during the year	99	6
Acc. depreciation, 31 December	–343	–380
Book value	174	218
Total	406	421
Tax assessment value		
Buildings	–	–
Land	–	–

The item 'Land and buildings' includes two properties; the head office in Stockholm and land in the municipality of Sigtuna. These are classified as special units and are consequently not taxable.

Acquisitions for 2009 include purchase of land and facilities for the new cash depot in the municipality of Sigtuna for SEK 38 million and computer equipment for SEK 3 million (3).

The item 'Book value, machinery and equipment' includes intangible fixed assets in the form of application systems in an amount of SEK 97 million (124).

Note 11 Financial assets

Shares and participations	31.12.2009	31.12.2008
BIS	441	441
17 244 shares at a par value of SDR 5 000 of which 25% are paid up		
European Central Bank	79	82
7 % of 2.2582 % of total capital subscriptions, EUR 9 106 093.68		
SWIFT	1	1
10 (35) shares at a par value of EUR 125		
Total	521	524

As at 1 January 2009 the Riksbank adjusted its percentage participation in the European Central Bank from 2.3313 per cent to 2.2582 per cent, and the paid-up subscription amount was adjusted downwards by EUR 294 772.58. This adjustment was made because the allocation key changed for all EU countries. EU countries that have not switched to the euro pay in only 7 per cent of their percentage participation.

Note 12 Derivative instruments

	31.12.2009	31.12.2008
FX swaps, positive value	332	–
FX swaps, negative value	–196	–
Currency forward contracts, positive value	–	8
Total	136	8

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

The nominal amounts of the derivative contracts, which are reported as memorandum items (see Note 44) are shown below:

	31.12.2009	31.12.2008
FX swaps, positive value	11 278	–
FX swaps, negative value	7 474	–
Currency forward contracts, positive value	–	706
Total	18 752	706

Note 13 Prepaid expense and accrued income

This item is used to report prepaid expenses and accrued income. The item mainly includes accrued bond interest of SEK 3 741 million (2 501) and accrued interest income from lending in the form of structural operations of SEK 526 million (2 301).

Note 14 Other assets

	31.12.2009	31.12.2008
Staff loans	290	283
Accounts receivable	3	6
Claim Crane & Co. Inc.	21	20
VAT recoverable	6	6
Balances with banks	6	2
Other	0	0
Total	326	317

The claim on Crane & Co. Inc. refers to part of the proceeds from the sale of Crane AB and will be settled by the payment of USD 3 million in 2011.

Note 15 Banknotes

Value of banknotes in circulation, by denomination:

	31.12.2009	31.12.2008
1 000 kronor	31 367	34 302
500 kronor	59 447	58 021
100 kronor	9 866	9 999
50 kronor	1 253	1 257
20 kronor	1 759	1 735
Commemorative banknotes	2	2
Invalid banknotes after 2005	896	950
Total	104 590	106 266

The item 'Invalid banknotes after 2005' includes banknotes that ceased to be legal tender at the end of 2005. Notes that have been invalid for more than 10 years are written off from the liability for banknotes in circulation and carried in profit and loss less a small amount that is recorded under 'Provisions'. The Riksbank may redeem invalid banknotes if there are particular grounds.

Note 16 Coins

Value of coins in circulation, by denomination:

	31.12.2009	31.12.2008
10 kronor	2 548	2 518
5 kronor	1 313	1 303
2 kronor	8	8
1 krona	1 349	1 330
50 öre	197	188
Commemorative coins	658	660
Total	6 073	6 007

Note 17 Deposit facility

Overnight deposits from the banks in their RIX accounts at the Riksbank are reported here.

Note 18 Fine-tuning operations

This item is used to report deposits for the purpose of fine tuning liquidity in the financial system. These deposits are usually made overnight.

Note 19 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 made at the Riksbank's most important policy rate (repo rate), usually with a maturity of one week.

Note 20 Liabilities to residents in Sweden denominated in Swedish kronor

This item was used to report as at 31 December 2008 accounts denominated in Swedish kronor which the Riksbank held on behalf of Kaupthing. The debt was settled in March 2009.

Note 21 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. At the end of 2008 the balance with the US Federal Reserve amounted to SEK 189 193 million, which can be explained by the fact that the account was used for payment of USD 25 000 million under the swap agreement with the Federal Reserve. The swap agreement was used up to and including October 2009.

Note 22 Liabilities to residents in Sweden denominated in foreign currency

As of June 2009 borrowing of foreign currency from the Swedish National Debt Office is reported under this item. The borrowing was for the purpose of strengthening the foreign currency reserve.

As at 31 December 2008 a payable to Kaupthing hf for collateral received of EUR 170 million, referring to the Riksbank's loan to Kaupthing Bank Sweden AB, was reported under this item. Collateral was received in the form of a deposit into an account that the Riksbank has with another central bank. This debt was settled in March 2009.

Note 23 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.

	31.12.2009	31.12.2008
Euro	–	7 297
US dollars	–	–
Pounds sterling	–	168
Canadian dollars	–	–
Australian dollars	–	1 223
Total	–	8 688

Note 24 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 accumulated amount granted totals SDR 2 249 million (246.5). In 2009 the Riksbank was allocated drawing rights totalling SDR 2 002.5 million, of which 1 776 million in August and 226.5 million in September. The current holding of SDRs amounts to SDR 2 291 million (199) and is reported under the item 'Receivables from the IMF'. See Note 2.

Note 25 Derivative instruments

	31.12.2009	31.12.2008
Currency forward contracts, positive value	–	–
Currency forward contracts, negative value	3	–
FX swaps, positive value	–	–571
FX swaps, negative value	–	9 825
Interest rate swaps, negative value	–	–
Total	3	9 254

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

The nominal amounts of the derivative contracts, which are reported as memorandum items (see Note 44) are shown in the table below.

	31.12.2009	31.12.2008
Currency forward contracts, positive value	–	–
Currency forward contracts, negative value	1 138	–
FX swaps, positive value	–	49 308
FX swaps, negative value	–	174 958
Interest rate swaps, negative value	–	–
Total	1 138	224 266

Note 26 Accrued expenses and deferred income

This item is used to record accrued expense and prepaid income, including SEK 494 million for accrued interest expense for deposits from the Swedish National Debt Office. At the end of 2008 the item mainly referred to accrued currency swap rates.

Note 27 Other liabilities

	31.12.2009	31.12.2008
Accounts payable – trade	32	25
Other	21	22
Total	53	47

Note 28 Provisions

	31.12.2009	31.12.2008
Pension provision	133	134
Invalid banknotes	65	74
Lease Malmö office	47	51
Job Security Foundation	6	5
Total	251	264

The pension provision has been calculated by the National Government Employee Pensions Board (SPV). SEK 119 million (124) refers to PA 91 pensioners with a date of retirement prior to 2003, and SEK 14 million (10) 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 item 'Provisions' also includes SEK 65 million (74) for the estimated future costs of banknotes that ceased to be legal tender but that the Riksbank still may redeem. In addition, the item includes SEK 47 million (51) for estimated future lease costs for the office in Malmö that was wound up in 2006. Furthermore, SEK 6 million (5) is included for professional development and competence exchange which was set aside in accordance with the agreement with the Job Security Foundation.

Note 29 Revaluation accounts

	31.12.2009	31.12.2008
Price effect	5 597	11 220
Exchange rate effect	12 327	20 888
Gold value effect	19 894	17 120
Total	37 818	49 228

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 changeover in 2004, it was decided that the cost of acquisition would correspond to market value 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.

Exchange rate effects are shown in the following table.

	31.12.2009	31.12.2008
Euro	5 765	14 473
US dollars	1 263	5 028
Pounds sterling	170	–
Australian dollars	1 472	221
Canadian dollars	1 234	703
Special drawing rights	494	106
Norwegian kroner	1 929	357
Total	12 327	20 888

Note 30 Capital

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

Note 31 Reserves

	31.12.2009	31.12.2008
Reserve fund	500	500
Contingency fund	36 480	34 078
Balancing account	26 045	23 164
Total	63 025	57 742

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 account have been used since 1988, according to guidelines for the Riksbank's allocation of net revenue adopted that year. The contingency fund has also been used for entering the amounts of asset write-ups. The Riksbank's gold reserve was written up to market value on 31 December 1998 and fixed assets were capitalised in the balance sheet in 1994 at cost of acquisition less depreciation. In 2009 a reposting was made of SEK 772 million (804) and SEK 2 million (3) respectively from the sub-items 'Write-up of gold reserve' and 'Fixed assets' to 'Allocation of net revenue', due to the year's divestments and depreciation of the written-up assets. The value of the BIS shares was written up 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:

	31.12.2009	31.12.2008
Allocation of net revenue:		
Exchange rate effect	8 057	7 450
Gold value effect	5 764	4 712
Other allocation of net revenue	13 713	12 197
Write-up of assets:		
Gold reserve	8 604	9 376
Fixed assets	107	108
BIS shares	235	235
Total	36 480	34 078

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 Dec 2008	1 000	57 742	11 183
Transfer to the Treasury			–5 900
Transfer to/from:			
Balancing account		2 881	–2 881
Contingency fund		2 402	–2 402
Result for the year			14 204
Balance, 31 Dec 2009	1 000	63 025	14 204

Note 32 Interest income

	2009	2008
From foreign assets:		
Security investments	6 935	6 409
Balances with banks	1 169	1 567
Receivables from the IMF	44	83
Gold lending	–	4
Securities lending programmes	17	90
	8 165	8 153
From domestic assets:		
Main refinancing operations	–	90
Fine-tuning operations	–	7
Structural operations	2 802	2 301
Marginal lending facility	0	11
Other lending	25	43
Staff loans	5	5
	2 832	2 457
Total	10 997	10 610

Note 33 Interest expense

	2009	2008
From foreign liabilities:		
Deposit repos	–177	–610
Special drawing rights	–31	–66
Deposits, Swedish National Debt Office	–597	–
Derivative instruments	–611	–256
	–1 416	–932
From domestic liabilities:		
Fine-tuning operations	–698	–1 015
Debt certificates issued	–651	–522
Deposit facility	–0	–11
Cash depots	–29	–119
Accounts in Swedish kronor	–2	–1
	–1 380	–1 668
Total	–2 796	–2 600

Note 34 Net result of financial transactions

	2009	2008
Price effect	2 325	1 392
Exchange rate effect	2 797	607
Gold value effect	1 592	1 052
Total	6 714	3 051

The price effect consists of realised gains and losses on securities of SEK 2 706 million (1 436) and unrealised losses on securities of SEK –381 million (–44), which have been transferred to profit and loss due to write-down of the securities holding.

The exchange rate effect includes realised exchange rate gains and losses of SEK 2 797 million (2 488). No unrealised exchange rate losses were transferred to profit and loss this year due to the write-down of the foreign currency holding (–1 881).

The gold value effect includes a realised gain of SEK 1 592 million (1 052).

Note 35 Fees and commission income

The item includes annual and transaction charges for the RIX system of SEK 58 million (43).

Note 36 Fees and commission expenses

The item mainly consists of custody fees and transaction costs for management of the foreign currency reserve, which increased in 2009 due to the Riksbank's liquidity assistance measures.

Note 37 Dividends received

Dividend of SEK 55 million (45) was received from BIS in 2009.

Note 38 Other income

	31.12.2009	31.12.2008
Unredeemed cash received	4	0
Reimbursement for discoloured banknotes etc.	5	1
Coin rolls etc.	–	4
Commemorative coins	0	1
Banknotes written off	–	813
Sida (Swedish International Development Cooperation Agency)	3	4
Other	4	1
Total	16	824

The income from Sida refers to remuneration for technical assistance to other central banks in some developing countries. The item 'Banknotes written off' refers to the redemption in 2008 of invalid banknotes that ceased to be legal tender after 1998.

Note 39 Staff costs

	2009	2008
Salaries and benefits	–199	–197
Salary recorded as assets	1	5
Social security contributions	–65	–66
	–263	–258
Pension premiums	–34	–34
Pension payments	–19	–21
Change in pension provision	2	6
Special payroll tax	–13	–15
	–64	–64
Training	–5	–6
Staff representation	–3	–2
Other	–7	–7
	–15	–15
Total	–342	–337

Pension premiums were paid in accordance with pension agreements for central government employees and others, PA 03 and PA 91.

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

Salaries and benefits to the members of the Executive Board in 2009 amounted to SEK 11.5 million, broken down as follows.

	2009	2008
Stefan Ingves	1.9	1.9
Svante Öberg	2.0	1.9
Karolina Ekholm	1.5	–
Lars Nyberg	2.0	1.9
Lars E.O. Svensson	2.2	2.0
Barbro Wickman-Parak	1.9	1.9
Irma Rosenberg	–	2.4
Qualification period salaries	0	2.0
Total	11.5	14.0

In addition, the Governor of the Riksbank received a board fee in 2009 of SEK 0.7 million (0.6) from the Bank for International Settlements (BIS).

The General Council has decided that during the statutory qualification period of a maximum of one year after the end of employment, members of the Executive Board shall receive a full salary without being required to perform any duties. However, deduction will be made for any income from other employment during this period. The item 'Qualification period salaries', refers to Irma Rosenberg's qualification period salary paid in 2009.

According to a decision of the General Council on 21 May 1999 regarding guidelines for pension conditions for members of the Riksbank's Executive Board, the regulation (RFS 1996:4) issued by the Administrative Board of the Riksdag on the application of the Ordinance on Pensions for Senior Government Officials (1995:1038) shall apply to members of the Executive Board of the Riksbank. Under this regulation, however, earlier provisions from 1991 shall apply to persons covered by the superseded ordinance on appointment pensions.

The Ordinance on Pensions for Senior Government Officials (1995:1038) was superseded on 1 April 2003 by the Ordinance on Severance Benefits for Certain Employees employed as Senior Government Officials (2003:55). Under this ordinance the new provisions are to be applied from 1 January 2003. The provisions of the Ordinance on Pensions for Senior Government Officials are, however, still applicable to any person who on 31 December 2002 held a senior position as defined in the ordinance, if that person continues employment without interruption. Furthermore, the provisions in the earlier superseded Ordinance on Appointment Pensions, etc. still apply to those previously covered by these provisions.

This implies the following: For Svante Öberg the older Ordinance on Appointment Pensions (1991:1160) applies. For Lars Nyberg the older Ordinance on Pensions for Senior Government Officials (1995:1038) is applicable. For Karolina Ekholm, Barbro Wickman-Parak and Lars E.O. Svensson the Ordinance on Severance Benefits for Certain Employees Employed as Senior Govern-

ment Officials (2003:55) is applicable. For Stefan Ingves the same ordinance is applicable with the exception of the reduction of the income guarantee for pension from the IMF.

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) in 2009 was 346 (354), of which 149 (152) were women and 197 (202) men. The number of FTEs at the end of the year was 351 (348). Total sick leave in 2009 was 2.5 per cent (2.4) of employees' total working hours. Sick leave over a continuous period of 60 days or more in 2009 was 50.7 per cent (55.8) of total sick leave. Women's sick leave in relation to total regular working hours for women amounted in 2009 to 2.8 per cent (2.8), while the corresponding figure for men in 2009 was 2.2 per cent (2.0).

The table below shows sick leave for each age group in relation to the total regular working hours for the group:

	2009	2008
29 years or younger	0.5 %	0.5 %
30–49 years	1.6 %	1.2 %
50 years or older	4.0 %	4.2 %

Note 40 Administration expenses

	2009	2008
Information, hospitality	–11	–12
Transport, travel	–15	–13
Consultancy assignments	–49	–43
Other external services	–69	–66
IT operation	–57	–61
Economics prize	–16	–16
Office and property maintenance	–45	–47
Other	–5	–6
Total	–267	–264

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

Costs for hospitality amounted to SEK 3.2 million (3.0).

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

Consultancy assignments amounted to SEK 49 million (43). This includes items such as IT consultants for SEK 31 million (28), including SEK 4 million (4) for consulting support for the RIX payment system and SEK 2 million (2) for the Caesar cash management system.

The largest single item in 'Other external services' is statistics deliveries of SEK 49 million (52), referring to remuneration to Statistics Sweden for production of balance of payment statistics and financial market statistics. In addition there are audit fees to the Swedish National Audit Office and the General Council's auditors of SEK 3 million (2).

The 'IT operations' item includes licensing expenses of SEK 38 million (41).

The 'Economics prize' item includes the prize sum of SEK 10 million (10) and administration costs for the prize of SEK 6.5 million.

The largest single items in the cost group 'Office and property maintenance' consist of refurbishment and maintenance of the Riksbank's premises, SEK 9 million (14), and SEK 11 million (11) for rent of premises.

Note 41 Depreciation/amortisation of tangible and intangible fixed assets

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

Note 42 Banknote and coin expenses

Of the total cost for banknotes and coins of SEK 117 million (113), SEK 80 million (30) refers to the purchase of circulation banknotes, SEK 37 million (75) to the purchase of circulation coins and SEK 0 million (8) to the purchase of commemorative coins.

Note 43 Other expenses

The item 'Other expenses' refers to non-recurring expenses.

Note 44 Memorandum items

Pledged assets

At the end of 2009 no securities were pledged in connection with foreign securities repos (SEK 8 567 million).

Contingent liabilities

The outstanding claims for compensation at the end of 2009 amounted to SEK 3 million (4).

Agreements where the Riksbank guarantees the value of Swedish government bonds, Treasury bills and mortgage bonds pledged as collateral for overnight credits between commercial banks and central banks in the euro area.

Undertaking 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 undertaking amounted to SEK 16.5 million in 2009 (16.5).

An undertaking to pay KPA Pensionsförsäkring AB supplementary compensation if so required as a result of index-linking the pension benefits to which the insured is entitled. This undertaking refers to personnel transferred from the Riksbank to AB Tumba Bruk (now Crane AB) in 1971.

Contingent assets

At the end of 2009 the Riksbank had no outstanding compensation claims (SEK 3 million).

Lending agreements

A swap agreement with the Icelandic central bank Seðlabanki Íslands expired in 2009.

A swap agreement with the Latvian central bank Latvijas Banka implying that the Riksbank as at 31 December 2009 had a commitment to lend EUR 500 million (157), equivalent to SEK 5 125 million (1 725), in exchange for Latvian lats.

Commitment to buy or sell special drawing rights (SDR) against payment in US dollars or euros within a band of 50 to 150 per cent of the Riksbank's total net allocation of SDRs that at the end of 2009 amounted to SDR 2 249 million, equivalent to SEK 25 216 million.

Agreements under GAB (General Arrangements to Borrow) and NAB (New Arrangements to Borrow) to provide the IMF with a credit facility of up to SDR 850 million (850), equivalent to SEK 9 350 million (10 270).

Commitment to pay the BIS, on demand, the remaining 75 per cent of the nominal amount of the Riksbank's shareholding in BIS. This commitment corresponded to SDR 65 million (65), equivalent to SEK 729 million (785) at the end of 2009.

Deposit agreements

A swap agreement with the US central bank, the Federal Reserve, implying that the Riksbank, as at 31 December 2009 had the opportunity to borrow up to USD 30 000 million (5 000), equivalent to SEK 214 563 million (39 225), in exchange for Swedish kronor.

Agreement with the BIS, implying that the Riksbank has the opportunity to borrow foreign currency.

Agreement with the European Central Bank, implying that the Riksbank has the opportunity to borrow euros in exchange for Swedish kronor. No amount is specified in the agreement.

■ The Riksbank's profit and loss account and balance sheet by function

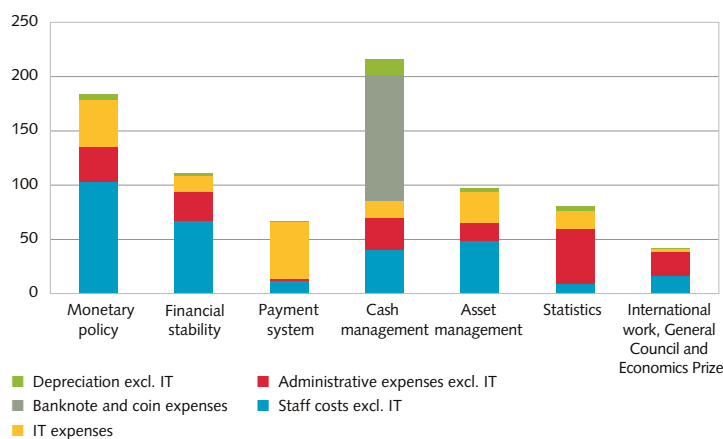
The table below shows the Riksbank's net income and expenses by function.

Breakdown of net income and expenses

Function SEK million	2009			2008		
	Net income	Expenses	Results	Net income	Expenses	Results
Monetary policy	2	-184	-182	2	-185	-183
Financial stability	2	-111	-109	1	-99	-98
Payment system	60	-67	-7	43	-66	-23
Cash management	-17	-216	-233	701	-214	487
Asset management	14 896	-97	14 799	11 169	-91	11 078
Statistics	-	-81	-81	-	-86	-86
Other international collaboration	58	-19	39	49	-22	27
General Council and Economics Prize	-	-22	-22	-	-19	-19
Total	15 001	-797	14 204	11 965	-782	11 183

Diagram 26

Allocation by nature of expense per function, 2009, SEK million



Source: The Riksbank.

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.

The allocation model is based on the format of the profit and loss account and the balance sheet, where the Riksbank's administrative expenses for 2009 amount to SEK 797 million (782) and assets and liabilities to SEK 708 838 million (700 211).

As of 2009 the costs of oversight of the financial infrastructure and policy activities in the payment system are allocated to the financial stability function, while the costs of developing economic statistics are allocated to the statistics function instead of the monetary policy function. This entails a reduction in the 2008 allocated costs for the payment system of SEK 15 million and for monetary policy of SEK 8 million, and at the same time an increase in the costs for financial stability of SEK 15 million and for statistics of SEK 8 million. In addition a reclassification of licence costs for financial information services has been made, resulting in an increase in the 2008 costs for asset management of SEK 3 million and an increase in the costs for statistics of SEK 1 million, while the costs for the payment system were reduced by SEK 4 million.

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. The payroll expenses for employees in support functions have been allocated using a cost allocation 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 200 employees, or 57 per cent of the total of 351, are directly involved in one of the functions. The other 151 employees are in support functions, such as IT, transport and security surveillance, property maintenance 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, most often consisting of the number of employees directly involved per function in relation to the total number of directly involved employees in all functions.

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 117 million (113) in 2009. These costs have been allocated in their entirety to the cash management function.

IT expenses

The model for allocation of IT expenses is based on four IT services: telephony, PC services, licences and IT systems. Telephony and PC services are allocated to users with commonly agreed prices for telephones, mobile telephones and PCs. The large activity licences, in particular financial information services, are allocated to the respective licensee at the actual price. IT system costs are allocated based on the number of logical servers per 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 seignorage derives from cash management has not been taken into consideration. Instead seignorage income has been allocated to asset management.

Payment system income in 2009 includes monthly and transaction fees from participants for the period February–December 2009. The income for January 2009 was reported in 2008. The monthly fees amounted to SEK 5 million on average.

Net income from asset management of SEK 14 896 million, less price, exchange rate and gold value effects of SEK 11 410 million recognised in the balance sheet, corresponding to the year's change in the revaluation account (see Note 29), constitutes the total return from the Riksbank's asset management in 2009 of SEK 3 486 million (see Table 5 in the 'Asset management' section of the Administration Report).

Allocation of assets and liabilities

The table below shows the Riksbank's assets and liabilities by function in millions of kronor. The unallocated assets item mainly contains tangible and intangible fixed assets and holdings of shares and participations. The unallocated liabilities item mainly contains equity, revaluation account and result for the year.

Allocation of assets and liabilities

Function SEK million	31.12.2009		31.12.2008	
	Assets	Liabilities	Assets	Liabilities
Cash management	–	110 663	–	112 273
Asset management	707 575	481 637	698 941	468 318
Unallocated	1 236	116 538	1 270	119 620
Total	708 838	708 838	700 211	700 211

The Riksbank's extraordinary measures

As a result of the financial crisis the Riksbank took a number of extraordinary measures. The net interest income and outstanding loan amounts for these measures are shown below.

SEK million	Net interest income Jan–Dec 09	Net interest income Jan–Dec 08	Loan amount 31.12.2009	Loan amount 31.12.2008
Lending in Swedish kronor to Swedish banks				
Structural operations	2 802	2 301	368 801	264 800
Fine-tuning operations	–698	–1 010	–171 107	–206 664
Debt certificates issued	–651	–522	–192 222	–48 946
	1 453	769	5 472	9 190
Lending in US dollars to Swedish banks				
Claims on residents in Sweden denominated in foreign currency	1 129	883	–	196 124
Liabilities to residents outside Sweden denominated in Swedish kronor ¹	–184	–663	–	–189 193
Liabilities to residents outside Sweden denominated in foreign currency	–141	–150	–	–
Liabilities to residents in Sweden denominated in foreign currency ⁶	–18	–	–	–
	156	70	–	6 931
Swap lending to central banks				
Bank balances and securities ²	5	4	–	4 862
Lending to Swedish banks on special terms				
Other lending ³	23	43	–	1 662
Accrued interest on items above				
			514	2 914
Total excluding strengthening of foreign currency reserve	1 637	886	5 986	25 559
Strengthening of foreign currency reserve				
Bank balances and securities ⁴	481	–	93 166	–
Liabilities to residents outside Sweden denominated in Swedish kronor ⁵	–101	–	–	–
Liabilities to residents in Sweden denominated in foreign currency ⁶	–579	–	–92 544	–
Accrued interest			–523	–
	–199	–	99	–
Total extraordinary measures	1 438	886	6 085	25 559

¹ Federal Reserve account in Swedish kronor.

² Iceland, Latvia.

³ Kaupthing, Carnegie.

⁴ Contingency portfolio (market value).

⁵ ECB's account in Swedish kronor.

⁶ Swedish National Debt Office.

■ Five-year overview

The five-year overview presents the balance sheet and profit and loss account restated in accordance with current accounting policies.

In this overview the items 'Result for the year', 'Net result of financial operations' and 'Revaluation account' have been adjusted by SEK 1 733 million for 2005 and 2006 due to the change in the accounting policies in 2008 for the IMF's balance denominated in Swedish kronor. This change does not affect 2007, because there was a write-down of SDR in that year and at the same time there was no opening balance in the SDR revaluation account in that year.

Balance sheet

SEK million	31.12.2009	31.12.2008	31.12.2007	31.12.2006	31.12.2005
ASSETS					
Gold	31 691	29 976	25 827	22 222	22 235
Claims on residents outside Sweden denominated in foreign currency	302 348	200 448	172 556	167 184	173 158
Receivables from the IMF	30 898	6 261	4 614	4 892	5 729
Balances with banks and security investments	271 450	194 187	167 942	162 292	167 429
Claims on residents in Sweden denominated in foreign currency	–	196 124	–	–	–
Lending to monetary policy counterparties denominated in Swedish kronor	368 802	266 462	9 129	7 088	9 601
Main refinancing operations	–	–	7 199	6 700	9 600
Fine-tuning operations	–	–	1 787	267	–
Structural operations	368 801	264 800	–	–	–
Marginal lending facility	1	0	143	121	1
Other lending	–	1 662	–	–	–
Other assets	5 997	7 201	4 414	4 191	3 613
Tangible and intangible fixed assets	406	421	452	483	512
Financial assets	521	524	524	594	594
Derivative instruments	136	8	497	379	19
Prepaid expense and accrued income	4 608	5 931	2 612	2 429	2 183
Other assets	326	317	329	306	305
Total assets	708 838	700 211	211 926	200 685	208 607

Balance sheet

SEK million	31.12.2009	31.12.2008	31.12.2007	31.12.2006	31.12.2005
LIABILITIES AND CAPITAL					
Banknotes and coins in circulation	110 663	112 273	114 324	112 380	111 075
Banknotes	104 590	106 266	108 517	106 862	105 516
Coins	6 073	6 007	5 807	5 518	5 559
Liabilities to monetary policy counterparties in Swedish kronor	171 163	206 696	143	121	250
Deposit facility	56	32	143	121	23
Fine-tuning operations	171 107	206 664	–	–	227
Debt certificates issued	192 222	48 946	–	–	–
Liabilities to residents in Sweden denominated in Swedish kronor	–	104	–	–	–
Liabilities to residents outside Sweden denominated in Swedish kronor	70	189 248	82	66	94
Liabilities to residents in Sweden denominated in foreign currency	92 544	1 862	–	–	–
Liabilities to residents outside Sweden denominated in foreign currency	–	8 688	12 047	13 906	10 159
Counterpart of SDRs allocated by the IMF	25 216	2 979	2 517	2 540	2 797
Other liabilities	662	9 998	184	262	194
Derivative instruments	3	9 254	17	6	1
Accrued expenses and prepaid income	606	697	114	188	111
Other liabilities	53	47	53	68	82
Provisions	251	264	206	276	289
Revaluation accounts	37 818	49 228	20 081	10 221	21 947
Equity capital	64 025	58 742	58 247	54 769	56 813
Capital	1 000	1 000	1 000	1 000	1 000
Reserves	63 025	57 742	57 247	53 769	55 813
Result for the year	14 204	11 183	4 095	6 144	4 989
Total liabilities and capital	708 838	700 211	211 926	200 685	208 607

Profit and loss account

SEK million	2009	2008	2007	2006	2005
Interest income	10 997	10 610	7 566	6 386	5 421
Interest expense	–2 796	–2 600	–1 089	–826	–320
Net result of financial transactions	6 714	3 051	–1 722	1 025	617
Fee and commission income	58	43	43	37	45
Fee and commission expense	–43	–8	–10	–9	–7
Dividends received	55	45	131	45	43
Other income	16	824	33	190	10
Total net income	15 001	11 965	4 952	6 848	5 809
Staff costs	–342	–337	–329	–316	–308
Administration expenses	–267	–264	–237	–223	–249
Depreciation/amortisation of tangible and intangible assets	–71	–68	–76	–100	–84
Banknote and coin expenses	–117	–113	–154	–65	–179
Other expenses	–	–	–61	–	–
Total expenses	–797	–782	–857	–704	–820
Result for the year	14 204	11 183	4 095	6 144	4 989

Stockholm, 10 February 2010



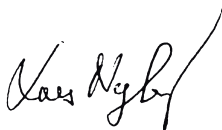
Stefan Ingves
Governor



Svante Öberg
First Deputy Governor



Karolina Ekholm
Deputy Governor



Lars Nyberg
Deputy Governor



Lars E.O. Svensson
Deputy Governor



Barbro Wickman-Parak
Deputy Governor

■ Proposal for the allocation of profits for 2009

Under Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council shall present proposals to the Riksdag (the Swedish Parliament) and the Swedish National Audit Office regarding the allocation of the Riksbank's profits. The General Council applies a principle of allocation of profits that, in short, entails 80 per cent of the Riksbank's average profits for the past five years, excluding exchange rate and gold value effects, being transferred to the Treasury. For 2009 the General Council therefore proposes a transfer of SEK 5 800 million.

When reviewing the Riksbank's management for 2008 (report 2008/09:FiU23), the Riksdag approved the proposal put forward by the General Council that the allocation of profits for 2008 should be based on the 1988 principle for the allocation of profits with the supplements to the principle made since then. In brief, this principle entails transfer to the Treasury of 80 per cent of the average profits for the past five years, excluding exchange rate and gold value effects. The General Council has applied the same basis for calculation for 2009.

In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council has received a report for the 2009 financial year from the Executive Board. The General Council notes that the Riksbank, applying current accounting policies, reports a profit for 2009 amounting to SEK 14 204 million. In accordance with the 1988 principle of allocation of profits and the supplements to the principle made since then, the following adjustments have been made to the reported profits when calculating the result used as a basis for the transfer:

1. The reported result has been positively affected by an exchange rate gain of SEK 2 797 million. In accordance with the allocation of profits principle, this profit is excluded when calculating the result on which the transfer to the Treasury is based.
2. The Riksbank reported a profit of SEK 1 592 million as a result of gold transactions in 2009. The General Council has, in accordance with a previously adopted supplement to the principle for profit allocation, excluded this profit when calculating the allocation of profits.
3. An unrealised price effect loss of SEK 5 623 million is not included in the reported result because of the accounting policies that were to some extent changed in 2004. The General Council has included this loss when calculating the allocation of profits in accordance with the principle.

The General Council proposes as stated below a transfer to the Treasury of SEK 5 800 million.

As the proposed transfer is lower than the profits reported for the year, it is proposed, in accordance with the principle for allocation of profits, that SEK 5 118 million be transferred to the contingency fund and SEK 3 286 million be transferred to the balancing account. The basis used for calculating the proposed allocation of profits is presented in the appendix to the General Council's submission to the Riksdag 2009/10:RB3 "Proposal for the allocation of the Riksbank's profits for the financial year 2009 and the General Council's Annual Report 2009".

The Audit Unit of the General Council has examined the basis for calculating the proposed allocation of profits. The Audit Unit did not find any reason for objection.

Net income for 2009 before appropriations amounts to SEK 14 204 million, and the General Council decided on 12 February 2010 to propose the following allocation of the Riksbank's profit:

SEK million	
Transfer to the Treasury	5 800
Transfer to the Riksbank's contingency fund	5 118
Transfer to the Riksbank's balancing account	3 286

The transfer will be made no later than one week after the Riksdag's decision, most appropriately in connection with the Riksbank's implementation of the weekly open market operation.

■ Audit report for Sveriges Riksbank

The Swedish National Audit Office (Riksrevisionen) has audited the Annual Report of Sveriges Riksbank, approved by the Executive Board of the Riksbank on 10 February 2010, for the financial year 2009. The Executive board of the Riksbank is responsible for the Annual Report.

It is the responsibility of Riksrevisionen to examine the Riksbank's Annual Report in accordance with generally accepted auditing standards. The aim of the examination is to assess whether the Annual Report and the underlying documentation are reliable, that the accounts are true and fair, and whether the Executive Board's administration has observed applicable regulations and any special decisions.

The audit has been carried out in accordance with generally accepted auditing standards. This means that the audit has been planned and performed with the aim of obtaining reasonable grounds for making an assessment of whether the Annual Report is true and fair. The examination has accordingly included a selection of significant transactions and administrative decisions.

It is the opinion of Riksrevisionen that the audit gives reasonable and appropriate grounds for the statements set out below.

The Annual Report has been prepared in accordance with the Sveriges Riksbank Act and with the application of the principles for bookkeeping and annual accounts adopted by the Executive Board of the Riksbank.

It is the opinion of Riksrevisionen that the Annual Report gives a materially true and fair view of the Riksbank.

Riksrevisionen recommends to the Riksdag that the balance sheet and the profit and loss account be adopted.

Furthermore, Riksrevisionen recommends to the Riksdag that the General Council of the Riksbank be discharged from liability for its activities and that the Executive Board be discharged from liability for its management of the Riksbank in 2009.

Auditor in charge Filip Cassel made the decision in this matter. Audit Director Anders Herjevik was presenter.

Stockholm, 11 February 2010

Filip Cassel

Anders Herjevik

■ The Riksbank's consultation work

Every year the Riksbank responds to a large number of consultation documents. 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 this responsibility also includes presenting a draft consultation response to the Executive Board. Responsibility for overall coordination and administration of consultation work lies with the General Secretariat.

In 2009 questions concerning regulation of the financial sector were predominant in the consultation work. Measures to strengthen stability in the financial system, as well as consumer protection and supervision in the financial area, were some of the areas dealt with. Proposals to implement regulations adopted by the EU into Swedish legislation and proposals regarding Finansinspektionen's regulations were also dealt with.

The Executive Board and General Council dealt jointly with a consultation request concerning provisions on internal control in the Riksdag agencies. The Executive Board also submitted consultation responses on the Long-Term Survey of 2008, a review of the Budget Act provisions on expenditure ceiling, the question of introducing a stability fee and the Swedish deposit guarantee scheme.

The Riksbank submitted the following consultation responses in 2009. Unless otherwise stated decisions were taken by the head of the department concerned.

Riksdag Administration

28.08.2009 Consultation response concerning the report "Bestämmelser om intern styrning och kontroll för riksdagens myndigheter" (Provisions concerning internal control in the Riksdag agencies) (2008/09:URF4). A decision on this matter was taken jointly by the Executive Board and the General Council of the Riksbank.

02.02.2009 Consultation response concerning follow-up of the reform of the Swedish National Audit Office (2008/09:URF1)

Ministry of Finance

16.10.2009 Consultation response concerning proposals for guidelines for the management of the Swedish national debt.

24.09.2009 Consultation response concerning "Bättre och snabbare insättningsgaranti" (A better and faster deposit guarantee scheme) (SOU 2009:41). A decision on this matter was taken by the Executive Board.

24.09.2009 Consultation response concerning the Swedish Bankers' Association's memorandum on liquidity matching for covered bonds following bankruptcy

18.09.2009 Consultation response concerning draft government bill on the introduction of a stability fee

05.06.2009 Consultation response concerning a draft proposal referred to the Council on Legislation on amendments to the premium pension system

05.06.2009 Consultation response concerning a proposal by the Swedish Pensions Agency on extended investment options

26.05.2009 Consultation response concerning Ministry Memorandum "Stärkt finanspolitisk ramverk – översyn av budgetlagens bestämmelser om utgiftstak" (A stronger fiscal policy framework – review of Budget Act provisions on expenditure ceiling) (Ds 2009:10). A decision on this matter was taken by the Executive Board of the Riksbank.

07.05.2009 Consultation response concerning the main report of the Long-Term Survey 2008 of the Swedish Economy (SOU 2008:105). A decision on this matter was taken by the Executive Board of the Riksbank.

06.04.2009 Consultation response concerning the draft government bill on change of coverage amount for the deposit guarantee scheme

02.04.2009 Consultation response concerning draft proposal referred to the Council on Legislation on a stability fee. A decision on this matter was taken by the Executive Board of the Riksbank.

02.04.2009 Consultation response concerning renovation of multi-dwelling buildings in the 'Million Homes Programme' – Central Government financial contribution

02.03.2009 Consultation response concerning memorandum on cross-border mergers of financial companies

02.03.2009 Consultation response concerning "Etiken, miljön och pensionerna" (Ethics, environment, pensions) (SOU 2008:107)

Finansinspektionen (the Swedish Financial Supervisory Authority)

20.11.2009 Consultation response on proposed general advice on continued application of Section 5 of the Capital Adequacy and Large Exposures (Implementation) Act (2006:1372)

19.11.2009 Consultation response concerning proposed regulations and general guidelines on remuneration systems in financial companies. A decision on this matter was taken by the Executive Board of the Riksbank.

02.11.2009 Consultation response concerning proposed amendments to accounting regulations FFFS 2008:25 and FFFS 2008:26

02.11.2009 Consultation response concerning proposed changes to regulations on securities business

02.11.2009 Consultation response concerning proposed amendments to regulations on quarterly statistics for certain securities companies

22.06.2009 Consultation response concerning proposed regulations on ownership and management assessment

26.03.2009 Consultation response concerning proposed regulations and general guidelines governing measures against money laundering and terrorist financing (FFFS 2009:1)

Ministry of Defence

13.10.2009 Consultation response concerning final report on a new rationing and price regulation act (SOU 2009:69)

11.03.2009 Consultation response concerning the interim report "Ransonering och prisreglering i krig och fred" (Rationing and price regulation in wartime and peacetime) (SOU 2009:3)

Ministry of Justice

27.08.2009 Consultation response concerning simplified attachment of earnings – Enforcement Service Report 2009:3

22.06.2009 Consultation response concerning proposed recasting of the Directive on combating late payment in commercial transactions

26.03.2009 Consultation response concerning the review of the Fourth and Seventh Company Law Directives

11.03.2009 Consultation response concerning the EC Accounting Directive – Micro-entities

02.03.2009 Consultation response concerning Ministry Memorandum "Betalningsansvar vid obehöriga transaktioner" (Liability for unauthorised transactions) (Ds 2008:86)

Ministry of Health and Social Affairs

28.01.2009 Consultation response concerning "Brist på brådska – en översyn av aktivitetsersättningen" (No hurry – a review of activity compensation) (SOU 2008:102)

Ministry of Education and Research

27.11.2009 Consultation response concerning the Globalisation Council's final report "Bortom krisen – om ett framgångsrikt Sverige i den nya globala ekonomin" (Beyond the crisis – a successful Sweden in the new global economy) (Ds 2009:21)

National Mediation Office

8.12.2009 Consultation response concerning proposed Swedish standard classification of labour costs etc, 2008 (SIK 08)

■ Publications

The Riksbank publishes a number of publications each year. These include:

Monetary Policy Report

Published three times per year. The report forms a basis for monetary policy decisions. By publishing this report the Riksbank makes its assessments generally accessible. In that way the Riksbank can stimulate interest in and facilitate understanding of monetary policy.

Monetary Policy Update

Published three times per year between two Monetary Policy Reports. Contains a limited number of forecasts and describes the Riksbank's assessments in conjunction with monetary policy decisions that are not based on a Monetary Policy Report.

Financial Stability

Published twice per year. The report presents the Riksbank's view of developments in the financial system and their significance for stability. The aim is to influence developments in the financial system and stimulate discussion on the subject.

Sveriges Riksbank Economic Review

Published three times per year. Contains in-depth articles on subjects in the Riksbank's field of activity.

Material for assessing monetary policy

Reports annually on the monetary policy conducted by the Riksbank in the immediately preceding years. It contains data and assessments necessary to enable the Riksdag to evaluate monetary policy. Up to and including 2007 the material was included in the first Monetary Policy Report of every year.

The Swedish Financial Market

Provides an annual presentation of basic statistics on the various parts of the financial sector and contains educational explanations of how these markets, institutions and systems function.

Annual Report

Provides an account of the Riksbank's activities during the past year. It also includes the annual accounts.

Working Paper Series

Presents reports with a connection to the Riksbank's fields of activity that are also considered to be of interest to readers outside the Bank.

Publications from the European Central Bank (ECB)

Include Swedish versions of the ECB's monthly bulletins, annual reports and convergence reports.

All the Riksbank's publications are available in full text on its website (www.riksbank.se).

The majority of them are published in both Swedish and English. The simplest way to order them is via the website. The Riksbank also publishes press releases, speeches, articles and minutes from the meetings of the Executive Board and the General Council on its website. The Riksbank's Economic Commentaries in the form of short studies and debate articles are also collected on the website.

As of 2009 it is also possible to download the results of the Riksbank's company interview surveys and risk surveys in pdf format.

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The Sveriges Riksbank's Prize in Economic Sciences in memory of Alfred Nobel 2009

The 2009 Sveriges Riksbank's Prize in Economic Sciences in memory of Alfred Nobel was awarded to Elinor Ostrom and Oliver E. Williamson. Elinor Ostrom has shown how common assets can be managed successfully by associations of users. Oliver E. Williamson has developed a theory in which business firms serve as structures for conflict resolution. They have thereby laid the foundation for the rapidly growing research on economic organisation.

The Sveriges Riksbank's Prize in Economic Sciences was established in connection with the Riksbank's 300th anniversary in 1968. In making its donation, the Riksbank committed itself to giving the Nobel Foundation each year in perpetuity the prize money and the amount necessary to cover the Foundation's administrative and financial expenses for the prize. 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, SEK 10 million, which is the same as for the Nobel Prizes, is paid by the Riksbank. If there is more than one winner, the prize amount is shared equally between them.



Elinor Ostrom



Oliver E. Williamson

Elinor Ostrom was born in 1933 in Los Angeles, CA, USA (US citizen). Ph.D. in Political Science from the University of California, Los Angeles, CA, USA, 1965. Arthur F. Bentley Professor of Political Science and Professor at the School of Public and Environmental Affairs, both at Indiana University, Bloomington, USA. Founding Director, Center for the Study of Institutional Diversity at Arizona State University, Tempe, USA.

Oliver E. Williamson was born in 1932 in Superior, WI, USA (US citizen). Ph.D. in Economics from Carnegie Mellon University, Pittsburgh, PA, USA, 1963. Edgar F. Kaiser Professor Emeritus of Business, Economics and Law and Professor of the Graduate School, both at the University of California, Berkeley, USA.

Previous prize-winners

The prize has been awarded every year from 1969 as follows:

1969	R. Frisch and J. Tinbergen	1992	G.S. Becker
1970	P.A. Samuelson	1993	R.W. Fogel and D.C. North
1971	S. Kuznets	1994	J.C. Harsanyi, J.F. Nash Jr and R. Selten
1972	J.R. Hicks and K.J. Arrow	1995	R.E. Lucas Jr
1973	W. Leontief	1996	J.A. Mirrlees and W. Vickrey
1974	G. Myrdal and F.A. von Hayek	1997	R.C. Merton and M.S. Scholes
1975	L.V. Kantorovich and T.C. Koopmans	1998	A. Sen
1976	M. Friedman	1999	R.A. Mundell
1977	B. Ohlin and J.E. Meade	2000	J.J. Heckman and D.L. McFadden
1978	H.A. Simon	2001	G.A. Akerlof, A.M. Spence and J.E. Stiglitz
1979	T.W. Schultz and A. Lewis	2002	D. Kahneman and V.L. Smith
1980	L.R. Klein	2003	R.F. Engle and C.W.J. Granger
1981	J. Tobin	2004	F.E. Kydland and E.C. Prescott
1982	G.J. Stigler	2005	R.J. Aumann and T.C. Schelling
1983	G. Debreu	2006	E.S. Phelps
1984	R. Stone	2007	L. Hurwicz, E.S. Maskin and R.B. Myerson
1985	F. Modigliani	2008	P. Krugman
1986	J.M. Buchanan Jr		
1987	R.M. Solow		
1988	M. Allais		
1989	T. Haavelmo		
1990	H.M. Markowitz, M.H. Miller and W.F. Sharpe		
1991	R.H. Coase		

■ 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. payments are in balance. See also balance on current account.

Balance on current account Statistical report that shows a country's transactions with the rest of the world relating to trade with goods and services, wages, return on capital and current transfers such as EU contributions. The balance on current account is part of the balance of payments.

Basel Committee An international organisation for banking supervision that develops standards, guidelines and recommendations that are normative for most supervisory authorities.

Basel II An international regulatory framework that regulates banks' capital adequacy; in other words how much capital a bank must hold in relation to the risk it takes.

Basis spread Difference between three-month interbank rate and expected policy rate.

BIS, Bank for International Settlements Coordinating body for central banks with its headquarters in Basel. Carries out investigations 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.

Central bank Institution responsible for monetary policy in a country or currency area, i.e. adjusting the interest rate to maintain price stability. Central banks are usually also responsible for maintaining stability of the payment system 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.

Clearing Reconciliation of payments or netting of reciprocal claims between banks.

Clearing house Financial company that has a licence to conduct clearing operations on behalf of customers. Also known as a clearing organisation.

CLS, Continuous Linked Settlement International system for clearing and settling foreign exchange transactions.

Commercial paper Financial instrument issued by companies and used for short-term borrowing in the money market.

CPI, consumer price index Statistical measure of consumer price trends. Measured by Statistics Sweden (SCB) every month. The Riksbank's inflation target is expressed in terms of the annual percentage change in the CPI.

CPIF, consumer price index with fixed mortgage rate Statistical measure of consumer price trends excluding the direct effects of changes in mortgage rates.

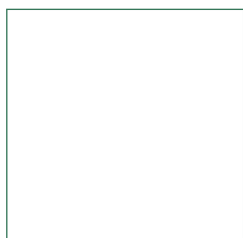
CPIX, underlying inflation Statistical measure of inflation that does not take into consideration more temporary effects. Calculated monthly by Statistics Sweden as the CPI excluding household mortgage costs and adjusted for the direct effects of changes in indirect taxes and subsidies.

Credit facility Agreement about credit that may be used at a later date. Usually this type of credit facility entails a fee for the party taking the loan. Also known as loan facility.

Currency exchange rate See Exchange rate.

Currency swap See Swap facility.

Deposit insurance Government insurance for funds deposited in accounts with credit institutions belonging to the scheme. If a credit institution defaults the account holders get back their deposits, usually up to a given fixed amount.



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, forwards and swaps.

ECB, European Central Bank Joint central bank for the EU member states which 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 EU central banks as well as the President and Vice President of the ECB.

ECOFIN Council Body within the Council of the European Union consisting of the EU finance and economic affairs ministers. Every year, the ECOFIN Council issues economic policy guidelines and adopts, together with the European Parliament, financial legislation and the European Union's budget of around EUR 100 billion.

EFC, EU Economic and Financial Committee Advisory body to ECOFIN 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 programs of the member states. The central banks are represented in the EFC by their deputy governors.

Emergency liquidity assistance Credit that a central bank can grant to a financial institution on special terms for the purpose of liquidity assistance. Alternatively, the central bank can issue guarantees that enable such institutions to borrow in the market.

Euro Currency in the EU Member States that have introduced the single currency and which take part in the single monetary policy under the leadership of the European Central Bank (ECB).

Euro System Collective name for the ECB and the central banks in the countries that have adopted the euro as their single currency.

Exchange rate The relative value between two currencies, i.e. the price at which one currency can be exchanged for another. Also called currency exchange rate.

Executive Board of the Riksbank Six members appointed by the General Council of the Riksbank for a term 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 system.

Financial markets Collective term for the markets where financial assets are bought and sold. The markets in Sweden include the stock, fixed income and foreign exchange markets.

Financial system Collective term for a system of laws and regulations that govern financial transactions, banks and other enterprises, market places and infrastructure. Through this system, people are able to pay, save money which others can borrow and receive assistance in managing risks that can arise on the financial markets.

Finansinspektionen (Swedish Financial Supervisory Authority) Central government agency with the task of monitoring the activity of banks, credit market companies, securities companies, securities brokers, fund management companies, stock exchanges, authorised marketplaces, clearing organisations and insurance brokers.

Fine tuning The result of the Riksbank's fine-tuning operations with the banks. The fine-tuning operations involve either the Riksbank absorbing surplus liquidity from the banks, meaning that the banks deposit money with the Riksbank, or that the banks borrow money from the Riksbank against collateral.

Foreign currency reserve See Gold and foreign currency reserves.

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 will be variable or fixed. The Riksbank then has the task of managing daily policy within the framework of the system decided.

G10, Group of Ten Forum for international economic cooperation. Despite the name, it consists of eleven countries: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the UK and the USA. Plays an active role in the work of BIS on developing financial standards. See BIS, Bank for International Settlements.

G20, Group of Twenty Consultative group for industrial and developing countries aimed at stabilising global financial markets. The G20 consists of the EU plus 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the UK and the USA. Sweden is only indirectly involved in the G20 via the EU.

GAB, General Arrangements to Borrow Borrowing arrangement between the IMF and eleven countries or central banks to temporarily supplement the IMF's lending resources when the NAB is not activated.

GDP, gross domestic product 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 deputy members appointed by the Riksdag (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 currency reserves Sweden's reserves of gold and securities in foreign currency managed by the Riksbank. This buffer can be used to defend the value of the Swedish krona and to provide emergency liquidity assistance to solvent banks which encounter difficulties.

Guarantee programme Short-term measure to facilitate bank and mortgage institution borrowing and reduce their borrowing costs during the global financial crisis that started in autumn 2008. The guarantee programme gives these institutions and some credit market companies the opportunity to enter into an agreement that in return for a fee the State will act as guarantor if the institution is unable to pay its creditors.

HICP, harmonised consumer price index Harmonised index for consumer prices used in the EU. Consists of the CPI excluding mortgage costs, tenant-owned housing charges, lotteries, pools and totaliser betting, etc. The HICP also includes certain costs not contained in the CPI at present, such as childcare charges.

Hodrick-Prescott filter Statistical method for decomposing the movements of a variable into trend and cyclical components. The method corresponds to a weighted double-sided moving average and places greater weight on observations close in time while gradually decreasing the weight of observations further away in time. Also known as HP filter.

IMF, International Monetary Fund Body that works to ensure stability of the global financial system and to avoid international financial crises. Monitors and analyses the economic development of the over 185 member countries, provides technical assistance and lends money to countries carrying out economic adjustment programmes.

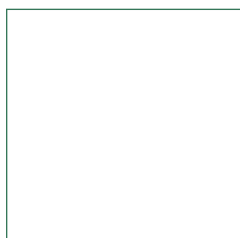
Inflation General price increases which lead to a reduction in the value of money, i.e. a situation when fewer goods and services can be bought for the same amount of money. The opposite is deflation.

Inflation measure There are several different measures of inflation; see for example CPI, CPIF, CPIX or HICP.

Interbank rate Daily reference rate based on the interest rates for unsecured loans offered by banks to other banks when they borrow from each other on the interbank market for terms of up to one year.

Interest rate risk Risk that the value of an interest-bearing security will fall or rise due to changes in market rates.

LIBOR, London Inter Bank Offered Rate Reference rate based on interest rates charged daily by the banks to lend without collateral to other banks on the interbank market in London. Used as a standard in Europe.



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

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 system.

Market operations Interest rate or currency transactions carried out by a central bank in order to influence interest rates or currencies; in other words transactions with a monetary policy or exchange rate policy aim.

Medieakademien Collaboration project between Göteborgs-Posten (a Gothenburg-based daily newspaper), the University of Gothenburg, Forsman & Bodenfors and NFO Infratest (now TNS Gallup) who have been conducting a yearly survey since 1997 to measure confidence in social institutions, private companies and 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 1 percentage point.

Monetary policy Measures that a central bank takes to maintain price stability in the economy. Monetary policy can also affect the exchange rate and the effects of economic trends.

Monetary Policy Counterparty Credit institution with a registered office or branch in Sweden that is a RIX participant and that has access to credit facilities with the Riksbank. Since April 2009 credit institutions that have opted not to participate in RIX can be restricted monetary policy counterparties to gain access to the credit facilities.

Money market Part of the credit market with trading in instruments with a shorter term than one year, such as treasury bills and certificates. One of the most important functions of the money market is to ensure access to liquidity for banks and other financial institutions.

NAB, New Arrangements to Borrow Borrowing arrangement between the IMF and 26 countries or central banks to temporarily supplement the IMF's lending resources.

OTC, Over The Counter Trading that takes place directly between a buyer and a seller and not on an exchange.

OTC derivative Tailor-made financial instrument with no or low second-hand value traded between two financial institutions or between one financial institution and a company on an OTC basis.

Overnight Index Swap An interest rate contract that prices overnight rate expectations for given time intervals.

Overnight loan Loan from one business day to the next provided by a bank or other financial institution to another bank or financial institution. Banks can also borrow from or deposit with the Riksbank for a single day.

Overnight loan interest rate Interest rate that market participants pay or receive if they borrow or deposit from one day to the next. The overnight rate is the shortest market rate.

Overnight loan market Market where banks in particular can deposit or borrow from one business day to the next or up to one week.

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

Policy rates Interest rates that a central bank sets for monetary policy purposes. In Sweden the policy rates are the repo rate and the lending and deposit rates to the banking system.

Price stability Condition where prices of goods and services only change moderately or not at all. According to the Riksbank's definition, price stability means that inflation, measured by the consumer price index, is limited to 2 per cent, with a permitted deviation of ± 1 percentage point. This target should usually be achieved within two years.

Repo, repurchase agreement Repurchase transaction similar to a short-term loan. The Riksbank lends money by purchasing securities from the banks. At the same time, the Riksbank undertakes to sell back these securities on a set date for a slightly higher amount, where the difference corresponds to the repo rate. The Riksbank accordingly then receives its money back and the security returns to its original owner. The market participants call the Riksbank's repurchase of a security a reverse repo. Repos are usually carried out every week.

Repo rate The Riksbank's most important policy rate by which the Riksbank can control short market rates with the intention of affecting inflation. Corresponds to the price difference between sale and repurchase of a repo. The banks pay the repo rate when they borrow money from the Riksbank through the Riksbank's repo agreements.

Riksbank Certificate Security with a short maturity that the Riksbank may issue where necessary to absorb surplus cash that arises in the banking system as a result of the Riksbank lending Swedish kronor in order to make it easier for banks to find funding in the short term.

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

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 dollars, euro, yen and sterling.

Seignorage Revenues that a central bank receives on its coins and banknotes. Equivalent to the return on a central bank's assets corresponding to notes and coins in circulation, less the central bank's total cost of cash management. See also the explanation in the box "Seignorage" in the "Asset management" section of the administration report.

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

SOM Institute Research and conference centre jointly managed by the Department of Journalism and Mass Communication (JMG), the Department of Political Science and the Research Centre for the Public Sector (CEFOS) at the University of Gothenburg.

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

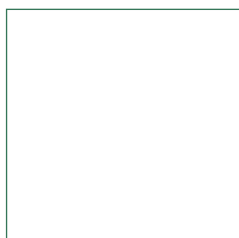
Sveriges Riksbank Act The Sveriges Riksbank Act (1988:1385) stipulates the goals and tasks of the Riksbank.

Swap facility Temporary arrangement for the mutual exchange of different currencies or securities with different yield terms. Prices and terms for using the facility are stipulated in advance between the parties.

SWIFT, Society for Worldwide Interbank Financial Telecommunications Messaging system used by agents on the financial markets for, among other things, international payment mediation and messages referring to settlement of financial transactions via very rapid and highly secure telecommunications networks.

VaR, Value-at-Risk Statistical method that describes the maximum potential loss on an investment that may arise with a given probability during a given period of time. Used to measure the risk of a specific asset or a portfolio of assets.

Volatility Expression of movement in different prices and interest rates. High volatility in, for example, a share means fast and large fluctuations in the share's stock exchange price.



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