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**The Riksbank's comments on the Swedish National Audit Office's audit of the Riksbank's asset purchases** 31/01/2024

On 6 December 2023, the Swedish National Audit Office published an audit of the Riksbank's purchases of securities 2015-2021. The Riksdag Committee on Finance decided on 12 December to give the Riksbank the opportunity to comment.

**Summary**

- The National Audit Office assesses that the asset purchases made by the Riksbank at the beginning of the pandemic reduced the impact of the pandemic on the economy by counteracting the prevailing financial stress, keeping interest rates low and maintaining a functioning credit supply.

*The Riksbank* shares this view. When financial markets are subject to unusually large shocks, asset purchases can safeguard both monetary policy transmission and financial stability, thereby having an impact on both inflation and growth. Asset purchases have been an important instrument for central banks worldwide, especially following the 2008–2009 global financial crisis.

- The National Audit Office recommends that the Riksbank should avoid buying assets with the primary purpose of influencing inflation.

*The Riksbank* considers that the impact of asset purchases on inflation is much more uncertain in situations where financial markets are functioning normally. However, situations may also arise in the future where purchases of securities are assessed to be an effective means of influencing inflation. A reasonable conclusion is that the effects of such a measure depend on conditions that can change from one situation to another. Under normal circumstances, the policy rate is the main tool of monetary policy. However, when the policy rate is close to its lower bound, and when the credibility of the inflation target is threatened, all measures have some difficulties, both asset purchases and alternative ways of stimulating the economy – such as a negative policy rate or more expansionary fiscal policy.

The Riksbank regards asset purchases as an option in unusually difficult monetary policy circumstances, which means that the threshold for such measures will be

high. This applies in particular to the purchase of private securities, for which the Sveriges Riksbank Act requires exceptional reasons.

The Riksbank's task includes taking decisions on the basis of the Sveriges Riksbank Act and within the framework of central bank independence to ensure that the price stability target is achieved and that the decisions are proportionate. The latter means carefully analysing different options for monetary policy. No further restrictions should be imposed.

- The National Audit Office recommends that the Riksbank should avoid large long-term holdings of government bonds, so that it is possible to buy them in the event of future financial crises.

The *Riksbank* intends to study this question more closely. A gradual shrinkage of the portfolio to much lower levels, through both maturity and active sales, has started and is expected to continue. What level of holdings can be considered appropriate under normal circumstances is a question that the Riksbank intends to return to. This issue is therefore not addressed further in this comment.

- The Swedish National Audit Office considers that the asset purchases were generally carried out in a transparent manner and with a solid basis for decision-making, but that there is room for improvement when preparing for similar situations in the future. The Swedish National Audit Office recommends that asset purchase costs and side effects should be reported more clearly to the public and the Riksdag (parliament).

*The Riksbank agrees.* The Riksbank endeavours to achieve a high degree of transparency in its monetary policy decisions and has also implemented these measures in a transparent manner and with a solid basis. However, the Executive Board considers that the costs and side effects of potential asset purchases and sales should be more clearly reported in the future.

## Introduction - the importance of auditing the Riksbank

For many years there have been established procedures for the Riksdag's scrutiny of the Riksbank. At the beginning of each year, the Riksbank submits to the Committee on Finance both an annual report on its activities as a whole, and an account of monetary policy that forms a basis for evaluation.<sup>1</sup> In addition, the Committee on Finance commissions reviews of monetary policy by external, independent experts. In the past, this has been done by foreign experts about every five years, but in the future, reviews will be made more often and also by Swedish experts, as a consequence of the new Sveriges Riksbank Act.<sup>2</sup>

It is important that the Riksbank's measures are examined and discussed, for several reasons. The Riksbank is an authority with a high degree of independence in matters of

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<sup>1</sup> For the latest account, see [Account of monetary policy 2022 \(riksbank.se\)](https://www.riksbank.se/Account-of-monetary-policy-2022).

<sup>2</sup> For the latest reviews, see K. Flug and P. Honohan, "[Evaluation of the Riksbank's monetary policy 2015-2020](#)" (2021/22:RFR4), and J. Hassler, P. Krusell and A. Seim, "[Evaluation of monetary policy 2022](#)" (2022/23:RFR5).

monetary policy. This needs to be balanced with a high degree of transparency and rigorous evaluation to maintain public and political confidence and support for the Riksbank's independence and mandate. External reviews of monetary policy can also contribute to a more informed discussion, which in turn provides an important basis for continuous improvements in monetary policy. Economic research suggests that transparency contributes to a more effective implementation of monetary policy<sup>3</sup>. Independence includes the Riksbank deciding on its own budget. It is therefore natural to scrutinise how the Riksbank manages public funds.

The Executive Board's comments focus on issues linked to the Riksbank's monetary policy preparations and decision-making process and to lessons that can be learnt for future monetary policy. The comments are presented in three sections, the main messages of which are as follows.

Firstly, the Executive Board considers that the National Audit Office's review contains important observations and conclusions that the Riksbank will take into account in its future work.

Secondly, there is broad agreement that central bank asset purchases in stressed financial conditions may be necessary to safeguard both inflation and growth. Securities purchases in more normal times are more controversial. They contribute to a more expansionary monetary policy, but the effects are uncertain. At the same time, the Executive Board considers that situations may also arise in the future where purchases of securities may be an appropriate means of influencing inflation. Securities purchases also entail financial risks for the Riksbank and other side effects that need to be clearly illustrated in connection with the decisions.

Thirdly, the Riksbank has carried out its own work on learning lessons from the Riksbank's and other central banks' asset purchases.

### **The Swedish National Audit Office has made important observations that the Riksbank will take into account**

The Riksbank shares the National Audit Office's view that the asset purchases at the start of the pandemic reduced the impact of the pandemic on the economy and that the purchases were generally carried out in a transparent manner and with a solid basis for decision-making – at the same time as there is room for improvement for similar situations in the future. The Executive Board agrees that there is considerable uncertainty, particularly in situations where the financial markets are functioning normally, regarding the effects of asset purchases, and concludes that further analysis of this monetary policy tool is needed. The Riksbank also shares the National Audit Office's view that the costs have been greater than anticipated, and that expected costs, risks and side effects could have been described more clearly. This section develops these arguments in more detail.

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<sup>3</sup> See, for example, [PDF-Woodford2005.pdf \(kansascityfed.org\)](#), M. Woodford, "Central-Bank Communication and Policy Effectiveness", Federal Reserve Bank of Kansas City Symposium, Jackson Hole, Wyoming, August 25-27, 2005 and O. Coibon, Y. Gorodnichenko and M. Weber, [Monetary Policy Communications and Their Effects on Household Inflation Expectations \(uchicago.edu\)](#), Journal of Political Economy, 130.6 (2022), pp. 1537-1584.

### *Good impact at the beginning of the pandemic and solid decision-making basis*

The Swedish National Audit Office concludes that **the asset purchases made by the Riksbank at the start of the pandemic were effective** and meant that interest rates were kept low, that the supply of credit could be maintained (p. 48), and that the impact of the pandemic on the economy was minimised (p. 5). This is also the assessment of the Executive Board, which concludes that asset purchases may need to be used to maintain price stability in the event of severe shocks to the economy in the future.

The Swedish National Audit Office also believes that the Riksbank has mainly carried out the asset purchases in a transparent manner with a **solid decision-making basis** as a basis (p. 5). The Executive Board of the Riksbank takes the same view.

### *More analyses and follow-ups to account for uncertainty*

A common theme in the Swedish National Audit Office's review is that there is **considerable uncertainty regarding the effects of asset purchases**. This is an important observation with which the Executive Board fully agrees, but it does not mean that the effects are unimportant. The effects of asset purchases are more uncertain than those of regular interest rate policy, partly because experience is simply more limited due to the less frequent use of the tool. It is therefore necessary to continue to develop the analyses, both in Sweden and internationally.

At the same time, the Executive Board recognises that there is general uncertainty about the effects of all monetary policy tools, including interest rate changes, as it is not possible to conduct controlled experiments with macroeconomic policies. In practice, it is not possible to implement different types of macroeconomic measures under otherwise similar conditions to evaluate their effects. However, economic and statistical methods can be used to analyse historical and international experience with different monetary policy decisions and to obtain the best possible understanding of the effects of monetary policy.

Uncertainty about the impact of policies does not mean that action should be avoided. However, it means that it is essential to take into account this uncertainty in the decision-making basis.

The Swedish National Audit Office believes that there have been some **deficiencies in the Riksbank's follow-up** of the purchases, even though the bank has developed an increasingly systematic preparation (p. 5). For example, the Swedish National Audit Office points to the need for quantitative analyses of the effects on growth and inflation (p. 28) and better monitoring of the negative side-effects and costs of asset purchases (p. 6).

### *Further focus on risks*

The Swedish National Audit Office points out that **the Riksbank's financial losses linked to the asset purchases have been significant** and far greater than anticipated (p. 6). Even if the Riksbank was aware that there were risks at the time of the decision, in risk reports and in subsequent analyses - which has been evident from both decision-making documents and communication - the Executive Board considers that financial risks for the Riksbank need to be given more focus in future monetary policy decisions.<sup>4</sup>

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<sup>4</sup> The Riksbank has constantly emphasised that there are financial risks in its operations. See, for example: K. af Jochnick "[Does the Riksbank have to make a profit?](#)", speech on 23 January 2015;

Financial risks have not had the same significance before, partly because the Riksbank's exposure to financial risks has been small and partly because monetary policy has not had any significant effect on the risks. However, the Riksbank's actions since 2015 have increased the risks on the Riksbank's balance sheet. This is also the case for other central banks and reflects the major economic shocks that occurred in the world economy. The overriding objective of monetary policy is to maintain low and stable inflation. Without neglecting the inflation target, the Riksbank shall moreover contribute to a balanced development of production and employment. When major disruptions occur, the Riksbank may need to increase its risk-taking to stabilise developments, but the risks must then be made clear.

#### *Regular information on costs, risks and side effects*

The Swedish National Audit Office believes that the Riksbank has mainly reported the motives and effects of asset purchases on financial conditions in a comprehensive and transparent manner. However, it also considers that **expected costs, financial risks and side effects could have been described more clearly and coherently** (p. 7). The Executive Board of the Riksbank agrees with this. On the other hand, the annual accounts of monetary policy recommended by the Swedish National Audit Office (p. 7) are not the most appropriate forum for this. In these reports, the Riksbank provides an account of monetary policy in retrospect and of how the Executive Board reasoned when the monetary policy decisions were made. The Executive Board's ambition is instead to be clearer about financial risks, etc. on a more regular basis, in decision-making documents and other contexts where the reasons for monetary policy decisions are presented.

#### **The impact of asset purchases depends on the conditions**

The Riksbank's purchases can in general be divided into two phases: the period 2015-2017 and the pandemic years 2020-2021. The two phases differ in terms of the motives for the purchases, but above all in terms of the composition of the assets. During the first phase, the Riksbank only purchased government bonds and the aim was to maintain confidence in the inflation target in a situation where inflation had been low for a long time and had undershot the inflation target. When the second phase started in the context of the 2020 pandemic, inflation was relatively close to the target. This time the purchases included government and municipal bonds, covered bonds (mortgage bonds), treasury bills, as well as corporate bonds and commercial paper. The purchases were largely aimed at securing the supply of credit and ensuring that the Riksbank's policy rate would have a good impact on the economy even in uncertain times.

Even though there is considerable uncertainty about the effects of the asset purchases, the Swedish National Audit Office also states that there is no evidence that the asset purchases made to stimulate growth and inflation in 2015-2019 and from the end of 2020 have had more than a limited effect (p. 48). According to the Swedish National Audit Office, there is no support for the claim that inflation has been significantly affected. In contrast, the asset purchases at the beginning of the pandemic are judged to have been more effective as they contributed to maintaining financial stability. It is these assessments, together with the

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M. Flodén "[The Riksbank's bond purchases affect the state's finances](#)", speech on 9 November 2016; Sveriges Riksbank's annual reports for the years 2016-2019, [Annual Report | Sveriges Riksbank](#).

observation that the costs of asset purchases have been higher than expected (p. 6) that the Executive Board perceives to be the main reasons why the National Audit Office recommends the Riksbank to avoid buying assets with the primary purpose of influencing inflation in the future.

*The effects are complex and difficult to measure*

It is important to recognise that uncertainty about the effects of monetary policy means that all decisions must be based on judgement. Formal analyses provide important guidance but can rarely provide clear-cut answers. Controlled experiments are not possible, making it difficult to assess what would have happened in the absence of monetary policy measures. An overall assessment must therefore be based on several different sources of information, including available research.

There is considerable uncertainty about the effects of asset purchases, but a reasonable conclusion is that the effects depend on conditions that can change from situation to situation. International experience and research suggest that central bank asset purchases under stressed financial conditions may be necessary to safeguard both inflation and growth. This is in line with the Swedish National Audit Office's conclusion regarding the Riksbank's measures at the beginning of the pandemic. Asset purchases in more normal times are more controversial. They contribute to a more expansionary monetary policy, but the effects are uncertain.<sup>5</sup>

Assessments of the effects of monetary policy by central banks and others can be guided by analyses of a large amount of data and supported by formal methodologies. However, the Swedish National Audit Office bases its assessment that the effects of the asset purchases in 2015–2019 have been small on observations and reasoning with regard, for instance, to there being no clear signs that lending rates to households and companies have been affected to any great extent (p. 53). At the same time, this conclusion is not based on any analysis of how financial conditions and macroeconomic developments would have been if the Riksbank had not made the asset purchases (so-called counterfactual simulations). Monetary policy aims to counteract the effects of various shocks and the Riksbank's measures can be seen as an insurance against an excessively bad outcome. Consequently, signs of relatively stable development cannot be used as an argument that no action was needed.<sup>6</sup>

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<sup>5</sup> For an overview, see B. Andersson, M. Beechey Österholm and P. Gustafsson, "[The Riksbank's asset purchases 2015-2022](#)", Riksbank Study, Sveriges Riksbank, 2022. For later contributions, see: M. Beechey Österholm and P. Gustafsson, "[Estimating the effect of Riksbank government bond purchases on bond term premia and yields](#)", Staff Memo, December 2023, Sveriges Riksbank; J.H.E. Christensen and X. Zhang, "Quantitative Easing, Bond Risk Premia and the Exchange Rate in a Small Open Economy", manuscript, Sveriges Riksbank, 24 November 2023; T. Wieladek, "[Does QE generate more inflation than conventional monetary policy?](#)", CEPR Discussion Paper no. 18463, 17 September 2023.

<sup>6</sup> Moreover, these measures do not only work through bank lending rates but affect financial conditions more broadly. One of the channels, as noted by the National Audit Office (p. 49), has been to counteract an appreciation of the krona, which has affected inflation. The research report by Christensen and Zhang highlights the exchange rate channel.

### *Riksbank may need to buy assets to influence inflation*

Beyond financial conditions, monetary policy also works by influencing inflation expectations. For the Executive Board of the Riksbank, confidence in the inflation target and the objective of preventing a significantly worse development were central motives for monetary policy in 2015-2022.<sup>7</sup> Inflation and inflation expectations fell and moved away from the inflation target in 2013-2014. Inflation expectations rose after the start of asset purchases in 2015.<sup>8</sup> Despite the pandemic, its aftermath and the sharp rise in inflation in 2022, inflation expectations remained remarkably stable. The Riksbank's focus on the inflation target and inflation expectations has most probably contributed to this.

The Riksbank must consider the alternatives to asset purchases available in each situation along with their consequences. When financial market shocks occur that threaten financial stability and affect the monetary policy transmission mechanism, asset purchases will continue to be an important tool. In more normal situations, changes in policy rates will be the main instrument of monetary policy. But situations may also arise in the future when the policy rate comes close to its lower bound and when the credibility of the inflation target is threatened. One option would be to lower the interest rate into negative territory as much as possible, but there are also uncertainties and risks with such a move. Another option would be to focus fiscal policy more actively on stabilising inflation. In addition to requiring a major change in the fiscal policy framework, the consequences for government finances would not obviously be less than those associated with the Riksbank's asset purchases. Moreover, the Riksbank's expansionary monetary policy has also had positive effects on government finances through higher economic activity that has increased tax revenues and reduced some public expenditure. Finally, accepting larger deviations from the inflation target is, of course, an option but one that could pose serious risks to the long-term credibility of the target and thus to macroeconomic stability.

### *Impact on risk-taking*

The effects of asset purchases also differ depending on the assets purchased. Further aspects arise in relation to the purchase of private securities relative to the purchase of government securities. One is the problem of so-called moral hazard, i.e. that creditors and borrowers take greater risks if they expect the central bank to always step in when problems arise. The problem of moral hazard should be taken into account when the central bank takes this type of action, but refraining from supporting the financial markets in a crisis situation can also be very costly for the economy as a whole. This is a strong argument in favour of the need for other measures to prevent risks from building up, for instance in financial and macroprudential supervision. The view of risk may also be affected if the financial markets consider the central bank to be a safe buyer of securities even outside of direct times of crisis. Purchases of private securities over a long period of time risk having a more lasting impact on markets' pricing mechanisms, which can be expected to reduce the efficiency of credit allocation in the economy in the long run. Over time, it is important that the risks that exist in more normal circumstances are reflected in fair risk premiums in financial markets. This demonstrates the importance of analysing in depth not only the question of when securities purchases should be initiated, but also how long they should continue, and when and at what pace the accumulated holdings should be liquidated.

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<sup>7</sup> See the introduction to the review by Andersson et al. mentioned above.

<sup>8</sup> The analyses by Christensen and Zhang suggest positive effects of asset purchases on inflation expectations. Ongoing work by M. Klein and X. Zhang suggests positive effects on producer prices: See "The Inflationary Effects of Quantitative Easing", manuscript, 18 December 2023.

Against this background, the Executive Board considers that situations may arise in the future where both the Riksbank and other central banks may need to purchase assets. Asset purchases have been an important instrument for central banks worldwide, especially after the 2008–2009 global financial crisis. Many central banks now see asset purchases as an important tool in the monetary policy toolbox. It is far from obvious which criteria should determine when one or another monetary policy tool should be used but the Riksbank will use the tools that are needed and that are within its mandate. According to the new Sveriges Riksbank Act and its preparatory work, the Riksbank must take a stance, at the time of the decision, on whether the main purpose of a measure is to promote financial stability or price stability. The threshold for buying private assets will be high, partly as a result of the new Sveriges Riksbank Act. Consequences for the functioning of the financial markets must also be considered.<sup>9</sup> The Riksbank will continue to evaluate the experiences from the 2015–2021 asset purchases and new knowledge will influence the design of monetary policy.

#### *Interest rate rise unlikely but not overlooked*

The Swedish National Audit Office believes that the Riksbank, in its cost calculations for 2020–2021, risked underestimating the costs (p. 41) and that it was not reasonable to assume that it would take 17 years for inflation and bond yields to return to more normal levels (p. 42). However, this is a misleading description of the Riksbank’s forecasts and risk assessments. First, for a long time there has been considerable uncertainty about what should be considered a normal level of interest rates and whether they would rise at all.<sup>10</sup> Second, the figures for interest rate developments beyond the three-year horizon were not forecasts, but so-called technical projections that were made to make it possible to calculate expected losses at all. The financial results under different assumptions have been regularly reported. The decision documentation from February 2015 already included a main scenario with a policy rate level in 2022 that is not so far from the outcome. The estimate at the time was that the Riksbank would make a loss of just over SEK 4 billion when buying government bonds for SEK 100 billion. The consequences for the Riksbank’s balance sheet of various interest rate and exchange rate scenarios are presented on a regular basis in reports from the Riksbank’s Risk Division (risk reports). Such analyses were also included in the Riksbank’s consultation response to the inquiry into a new Sveriges Riksbank Act.<sup>11</sup> For example, scenarios and simulations showing the risks of losses under different assumptions were also presented for decisions on risk provisions in 2020 and 2021.

Of course, in the decision documents received by the Executive Board, the main and alternative scenarios and risks have varied over the years but it has always been clear that such a sharp rise in interest rates as subsequently occurred would be associated with very large losses. At the same time, a rapid and sharp rise in interest rates was not the main scenario for either the Riksbank or other forecasters, so it can be said that the risks were underestimated in this sense. However, the fact that a technical assumption was made about the development of interest rates beyond the forecast horizon (17 years ahead) in

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<sup>9</sup> One effect of central bank asset purchases, as already mentioned, may be that financial market participants take excessive risks in the belief that central banks will intervene if financial stability is threatened. See the review by Andersson et al. (pp. 59–60).

<sup>10</sup> See H. Lundvall, “[Drivkrafter bakom globala trender i den neutrala räntan](#)”, [Driving forces behind global trends in the neutral interest rate - in Swedish only] SOU 2023:87. The report by Christensen and Zhang also contains estimates of the long-term real interest rate.

<sup>11</sup> See [Bilaga 2 till remissvar angående En ny riksbankslag](#) [Annex 2 to consultation response regarding a new Sveriges Riksbank Act - only in Swedish], SOU 2019:46.



some calculations cannot be used as an argument that the Riksbank was unaware of the risks or as evidence that this assumption was essential to the risk assessments.

*Naturally, monetary policy affects the housing market, indebtedness and resource allocation*

To some extent, the Executive Board has a slightly different view to the Swedish National Audit Office when it comes to so-called side effects of asset purchases. The National Audit Office emphasises that the purchases had effects on the housing market, household indebtedness and resource allocation more generally. But the impact of monetary policy on the housing market, the price of risk, public risk-taking and the allocation of resources in the economy is part of the transmission mechanism for how a central bank's actions affect the macroeconomy. It is inevitable that monetary policy also has effects on aspects of economic development other than inflation and resource utilisation. This applies both to asset purchases and to normal interest rate policy and, as mentioned, the effects on risk-taking should be included in the assessment, not least when purchasing private securities.

The Executive Board also considers that the great uncertainty that is generally associated with the effects of monetary policy also applies to the so-called side effects, to which the National Audit Office does not attach any great importance in its assessments. For example, the Riksbank has discussed various side effects in articles in monetary policy reports and speeches. Nevertheless, the Executive Board agrees that the full impact of monetary policy can be monitored more systematically.

**The Riksbank learns from its own analyses and those of others**

In addition to external reviews of the Riksbank's activities, such as those of the Swedish National Audit Office, it is, of course, necessary for the Riksbank itself to carry out ongoing work on evaluating its measures, including analyses, decisions and external communication.<sup>12</sup> The Executive Board would like to take this opportunity to provide information on some of the work being done that is relevant to the issues raised in the Swedish National Audit Office's review.

*Models and analyses need to be developed*

Since the asset purchases began in 2015, the Riksbank has conducted several analyses, using methods based on internationally available research. As there is considerable uncertainty about the effects of asset purchases, these analyses need to be deepened. One problem is that the models used to analyse monetary policy often ignore many of the frictions and other imperfections in the financial system that have made asset purchases effective. For example, common models may assume that short-term and long-term government bonds are perfect substitutes and that the same applies to government bonds issued in different currencies as well as to government bonds relative to other securities. It is also common not to model the role of the banking sector explicitly. Consequently, one lesson is that the Riksbank needs to develop its analyses and understanding of how imperfections in the financial system affect the monetary policy tools and the transmission mechanism. Another lesson is that analyses of monetary policy need to take greater account of the fact that the effects arise in part because different groups in society have different needs for, and opportunities to obtain, credit. In addition to theoretical modelling, empirical analysis is

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<sup>12</sup> See, for example, the review by Andersson et al. (2022) mentioned above.

needed where access to better micro data, for example on household assets and liabilities, is crucial.<sup>13</sup>

#### *Central bank balance sheets need to be reviewed*

As the size of central banks' balance sheets has increased significantly in many countries, questions have been raised about the future size and composition of balance sheets (in relation to GDP, and for example, in comparison with the period before the 2008–2009 financial crisis).<sup>14</sup> The Riksbank conducts analyses to obtain a better picture of this issue and makes comparisons with corresponding analyses by other central banks. The question partly concerns the optimal size and composition of the balance sheet to ensure operational preparedness to respond to future crises.<sup>15</sup> But it also concerns the financial system's need for reserves (deposits) at the central bank.<sup>16</sup> The current plans of the Executive Board to normalise the balance sheet imply a significant reduction in the asset portfolio, both in terms of government bonds and private securities.

#### *Updated policy for financial risk and investments*

As noted above, the Riksbank will better clarify financial risks and the links to monetary policy in the future. In 2023, the Riksbank conducted a fundamental review of its financial risk and investment policy. This has included considering the degree of hedging, highlighting risks other than those associated with the foreign exchange reserves (which have historically been the dominant ones) and looking at how the interaction between the asset and liability sides of the balance sheet affects the overall risk. The review will continue for a number of years.

#### *Better understanding of the Riksbank's need for equity*

The new Sveriges Riksbank Act, which applies as of 2023, requires the Riksbank to make a petition to the Riksdag to restore its capital if it falls below one third of the target level.<sup>17</sup> Over the past year, the Riksbank has made analyses that could form the basis for such a petition. These include the Riksbank's earning capacity and ability to build up the buffers

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<sup>13</sup> See [Remissvar om betänkandet En ny statistik över hushållens tillgångar och skulder](#) [Consultation response to the report New statistics on household assets and liabilities - only in Swedish], SOU 2022:51.

<sup>14</sup> See, for example, I. Schnabel, [“Back to normal? Balance sheet size and interest rate control”](#), speech, 27 March 2023, A. Vissing-Jørgensen, [“Balance sheet policy above the ELB” and M. Flodén: Reasonable for the Riksbank's balance sheet to shrink in the long run | Sveriges Riksbank](#), speech 13 April 2018.

<sup>15</sup> In May 2012, the Riksbank decided to set up a portfolio of securities in Swedish kronor to ensure operational preparedness. See [Securities portfolio in Swedish kronor](#). The previous holding was phased out in connection with extra transfers of profits of SEK 40 billion to the government budget in 2000-2001.

<sup>16</sup> See, for example, A. Hauser, [“Less is more’ or ‘Less is a bore’? Re-calibrating the role of central bank reserves”](#), speech, 3 November 2023.

<sup>17</sup> According to the Sveriges Riksbank Act, the target level for equity is SEK 60 billion but the target level shall be recalculated each year in accordance with the change in the consumer price index.

desired.<sup>18</sup> Other central banks have also incurred large financial losses (in some cases considerably larger than the Riksbank's, in relation to the respective country's GDP) as a result of asset purchases once interest rates rose but are better equipped than the Riksbank to deal with them.<sup>19</sup> The Riksbank has unusually low income in the form of seigniorage due to the low use of cash in Sweden. This affects how much equity the Riksbank needs to be considered sufficiently financially independent. But the need for equity is also affected by the size and composition of the balance sheet, as well as by fluctuations in interest rates, exchange rates, the macroeconomy and so on. For several years, the Riksbank has deepened its theoretical and quantitative analyses in this area.<sup>20</sup> In addition to providing a basis for well-founded decisions on the Riksbank's capital requirements, such analyses will be able to contribute to the Riksbank's analyses of financial risks and to clearer reporting to the public and Riksdag that the Swedish National Audit Office is calling for. It is also part of the proportionality assessment to be made of monetary policy decisions.

#### *Greater focus on the interaction between monetary and fiscal policy*

The interaction between monetary and fiscal policy has not been the focus of discussions of stabilisation policy in Sweden since the reforms of the 1990s, nor has it been in other countries. But this interaction has attracted more interest in recent years, for a variety of reasons.<sup>21</sup> Monetary policy's freedom to manoeuvre was curtailed when interest rates were close to zero. Large balance sheets restrict the ability to increase them further and, as has now been the case, can lead to large losses. For this reason, among others, the design of monetary policy has consequences for public finances, as the Swedish National Audit Office points out, but the reverse is also true.<sup>22</sup> The design of fiscal and public debt policy affects both interest rates and the macroeconomy in general, and thus the central bank's ability to achieve its statutory objectives. The Riksbank will deepen its analyses of these relationships, which will hopefully contribute to an increased exchange of knowledge between the relevant authorities.

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<sup>18</sup> As noted by the Swedish National Audit Office, the Riksbank has, for some years, been analysing the need for buffers and communicating this. See, for example, [the decision document for the Executive Board's decision on provisions for financial risk in 2020](#).

<sup>19</sup> Not all central banks record their assets at market value and therefore reported losses do not always include unrealised losses, as in the case of the Riksbank. This makes comparisons between countries difficult. For an overview, see S. Bell, et al., [Why are central banks reporting losses? Does it matter? \(bis.org\)](#).

<sup>20</sup> See, for example, D. Kjellberg and D. Vestin, ["The Riksbank's balance sheet and financial independence"](#), Economic Review 2019:2, Sveriges Riksbank, pp. 5-41.

<sup>21</sup> See, for example, P. Jansson ["Is it time to review the division of roles in macroeconomic policy?"](#), speech, 8 December 2021.

<sup>22</sup> The Swedish National Audit Office discusses (1) the macro-economic consequences of monetary policy, (2) the consequences for overall government finances and (3) the government budget. It is important to recognise that these are three different issues. The IMF has analysed the impact on the economy and public finances of asset purchases by the Reserve Bank of New Zealand, see Annex IX in [New Zealand: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for New Zealand](#).



On behalf of the Executive Board:

Erik Thedéen

Anne Mattila Wass

This decision has been taken by the Executive Board (Governor Erik Thedéen, First Deputy Governor Anna Breman and Deputy Governors Per Jansson, Martin Flodén and Aino Bunge) following a presentation by senior adviser Anders Vredin. Head of Division Jens Iversen and Head of Department Åsa Olli Segendorf participated in the final processing.