

Submission to the Riksdag
2020/21:RB1

Annual Report for Sveriges Riksbank 2020

To the Riksdag

Sveriges Riksbank hereby submits the Riksbank's Annual Report for 2020 to the Riksdag. In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the Annual Report includes an administration report, a balance sheet, a profit and loss account and an assessment of the Riksbank's internal controls.

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

The Executive Board proposes

that the Riksdag adopt the Riksbank's profit and loss account and balance sheet for the financial year 2020 as proposed in the Annual Report.

Stockholm, 11 February 2021

On behalf of the Executive Board

STEFAN INGVES

/Amanda Johansson

Stefan Ingves, Cecilia Skingsley, Anna Breman, Martin Flodén, Per Jansson and Henry Ohlsson took part in this decision.

The Reporting Clerk was Sofia Kåhre.

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Statement by the Governor

2020 was an exceptional year with awful consequences. The pandemic drove the world into a humanitarian crisis that rapidly had substantial economic consequences, both internationally and here in Sweden. When the economy is shaky, it is important that the central bank stands firm. Our objective is to safeguard price stability and our mandate is to ensure financial stability. The pandemic year gave us new, valuable experiences of crisis preparedness – new methods, tools and ways of working digitally – but also the insight that much needs to be done more quickly. Our new initiatives in the payment market, our strengthened preparedness and a monetary policy conducted via the balance sheet mean that we need new skills and more staff on board. But none of the things we have already done would have been possible without the highly knowledgeable and committed staff we already have!

The start of the year - the calm before the storm

We entered 2020 with a certain level of confidence. After several years of high economic growth, the economic situation in Sweden had become more balanced. Growth was expected to be moderate but to increase gradually from the end of 2020. The employment rate was high in both historical and international terms. Inflation had been close to the Riksbank's target of 2 per cent for a few years, but had been slightly restrained by falling energy prices. The Riksbank therefore conducted an expansionary monetary policy with a repo rate of 0 per cent. Even though the Riksbank noted in February that the outbreak of the novel coronavirus in China had increased uncertainty, the prospects for economic developments just then seemed a little brighter.

The Riksbank continued to develop its operations in line with our strategic plan from 2019, with the vision of being an innovative central bank with a high level of preparedness. We worked intensively to secure the future existence of the Swedish krona, in both physical and digital forms. Together with an external supplier, we started to test a technical solution for a digital e-krona. We initiated the work of making real time payments possible, around the clock, in the RIX payment system and entered into an agreement with the European Central Bank (ECB) to use its TIPS platform. We discussed a development of the technical infrastructure for the settlement of Swedish securities and we worked on our responsibility for ensuring reasonable access to cash across the entire country, both under normal circumstances and during crises.

In parallel to our day-to-day work, we monitored developments surrounding the coronavirus pandemic, reviewed our travel recommendations and, to be on the safe side, updated our pandemic plan.

Turmoil on the financial markets and an economy in free fall demanded measures

The realisation that the viral outbreak was developing into a pandemic dawned slowly and, by the start of March, the pandemic was a fact. For us, this meant that, just days before we were to participate in the first hearing of 2020 on monetary policy by the Riksdag Committee on Finance, we had to make completely new plans. All the curves were pointing in the wrong direction. We were now in an acute situation. We saw great turmoil in the financial markets in the wake of the coronavirus. It now became necessary for Sveriges Riksbank, in a very concrete and serious way, to be both innovative and to increase preparedness. The days, weeks and months that followed were dramatic.

Right from the start of the crisis, the Riksbank decided to offer loans of up to SEK 500 billion to the banks to facilitate lending, above all to small and medium-sized enterprises. We also decided to purchase Swedish interest-bearing securities up to a total value of SEK 500 billion, later expanded to SEK 700 billion, and to offer loans of up to USD 60 billion to the banks to ensure there would be no lack of liquidity in the financial system. These decisions have been successively implemented. By the end of 2020, the Riksbank's programme of measures had thus reached about SEK 1,800 billion, corresponding to just over one-third of Sweden's GDP. These initiatives were followed by a steady stream of monetary policy meetings, press releases, partly or completely online press conferences and extra online speeches in which we communicated the measures we had implemented.

The measures contributed to low interest rates and access to credit

The financial assets in the Riksbank's balance sheet increased heavily as the Riksbank purchased large amounts of securities. It is easy to conclude that monetary policy over the year thus had less of a focus on the interest rate – which was held at 0 per cent over the entire year. But asset purchases are just one way of holding the general level of interest rates in the economy low, which we deemed to be the most effective strategy under the prevailing circumstances. Monetary policy over the year was thus very much focused on keeping interest rates low, at the same time as we helped ensure that the credit supply in the economy functioned. The pandemic would not be allowed to trigger a financial crisis.

In the initial phase of the coronavirus crisis, equity prices and the oil price fell, many market rates rose, demand for safe assets increased and the Swedish krona depreciated. The great uncertainty hit Swedish companies hard and many people lost their jobs. Our support measures have helped manage the crisis so that the economy has not come to a complete standstill. The support measures were necessary for the economy in the short term but, at the same time, they risk increasing risk-taking. In addition, as Swedish households have long had large and rising debts, the resilience in the financial system will need

to be strengthened again when the economic situation allows it. Despite these support measures, unemployment is unfortunately expected to become much higher than it was before the pandemic.

The pandemic accelerated the process of change

During the pandemic, it has been particularly clear that new data sources with up-to-date information are needed if rapid assessments of economic developments are to be made. To complement more traditional statistics, the Riksbank expanded its data collection with real-time indicators. We now collect everything from card purchases to the number of restaurant visits booked. Our regular business survey also allowed us to call quickly round companies in Sweden during the most critical months of March, April and May to gain a current view of the situation.

There are several examples of how structural changes already under way in society were accelerated by the pandemic. Digitalisation and globalisation have long created pressure to modernise both the means of payment and the payment system. But now, the trade sector has taken the opportunity to switch even more rapidly to cashless payments, sometimes arguing that coronavirus can be transmitted by banknotes and coins, even though the Public Health Agency of Sweden has stated there is no evidence of this. At the same time, more and more countries are following developments in Sweden and our e-krona project with interest, as they can also see that cash usage is declining.

New working practices and meeting places – both opportunities and risks

The trend towards online meetings and teleworking has also been given a forceful boost during the pandemic. Initially, we were all a little tentative about rethinking and meeting in other ways but we have gradually adjusted to the new ways of working. This naturally placed higher demands on IT support at the same time as the Riksbank's IT operations were being moved to a new supplier. It has been necessary to place greater focus on information security and the Riksbank's protection against cyber risks. We are well aware of the risks out there and are working intensively with these issues.

The year 2020 has been very challenging for all members of staff and I am both proud and grateful over what we have achieved together. Nevertheless, to make sure that everybody is well despite teleworking, we carry out frequent 'check-ups', and have had a number of internal online managerial meetings and regular updates to managers. In the Executive Board, we have also held various forms of internal online meeting and have recorded films to continue to stay in touch with all members of staff even though we have not been able to meet physically. During times of turbulence, communication is particularly important, both internal and external.

The Riksbank started its journey of transformation

In the autumn of 2018, a new strategic plan was formed to meet the major challenges we saw ahead of us. We realised that we would have to shift our resources into a higher gear. This need has become ever clearer during the pandemic and many of the trends we saw have become stronger. Taking monetary policy as a starting point: the spread of infection has increased heavily, with increased restrictions and a downturn in the economy as a consequence. Sectors that were already vulnerable have been further impacted. The crisis has strongly increased the need for complementary asset purchases in Sweden and around the world. When the central bank purchases assets with the aim of holding interest rates low, the balance sheet grows – and so do the risks. The Riksbank is therefore making financial provisions in conjunction with the annual accounts to reduce the risks. We will also make the foreign currency reserves more robust by changing their method of funding. That part of the foreign currency reserves that is currently funded through borrowing in foreign currency via the Swedish National Debt Office will gradually be wound up and replaced with self-financing. Changed tasks require new initiatives from us.

In addition, over the year, we received the decision from the Bank for International Settlements (BIS) that, in cooperation with the Riksbank and the central banks of Denmark, Iceland and Norway, it will be establishing a BIS Innovation Hub Nordic Centre in Stockholm. It is very pleasing that the Riksbank will now be playing a large role in the important work of building up this centre for research around digital solutions and the analysis of innovations within financial technology, which are so relevant to central banks.

We are also taking important initiatives in the payment market, strengthening our crisis preparedness and developing several online forms for work and communication. Overall, this means that the Riksbank had already initiated a certain expansion in 2020 but that, next year, we will need new specialist skills and thereby more staff on board. It is primarily within the areas of payments, financial markets and IT that developments are proceeding most rapidly and where we see the need for strengthening. We shall ensure that we stand ready to do whatever necessary, whenever necessary, to contribute to a strong and secure economy for Sweden.

The Riksbank's financial statements show a result of SEK -4,273 million for the 2020 financial year. Besides the financial accounts, this annual report contains an overall description of the Riksbank's activities in the Bank's main areas. For more detailed descriptions, references are provided to publications and reports published during the year, as well as references to the Riksbank's website. The glossary in Annex 4 explains important words and terms, making the report easier to read.

ADMINISTRATION REPORT

Operations and strategies

Sveriges Riksbank's vision is to be an innovative central bank with a high level of preparedness. The Riksbank's tasks involve working for a strong and secure economy on behalf of the citizens of Sweden. Activities in 2020 were characterised, to a high degree, by the coronavirus pandemic and the comprehensive crisis measures implemented by the Riksbank to support the Swedish economy during the crisis.

The mission, tasks and role of the Riksbank

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

Maintaining the value of money – price stability

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

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

The Riksbank determines the level of its policy rate, the repo rate, to influence inflation and economic developments. In addition, after each monetary policy meeting, the Riksbank publishes its forecast for the repo rate, known as the 'repo rate path'. The repo rate and the repo rate path affect other interest rates in the economy and thereby economic activity and inflation. The Riksbank can also affect interest rates in other ways, for example, by purchasing various securities assets.

A safe and efficient payment mechanism – financial stability

The Sveriges Riksbank Act states that the Riksbank shall also promote a safe and efficient payment system. The Riksbank can do this by contributing to the stability of the financial system in various ways and by ensuring that payments can be made safely and efficiently. According to the Sveriges Riksbank Act, the Riksbank may supply a central payment system that banks and other agents can use to make payments. The accounts provided by the Riksbank are also used to implement monetary policy and, in crisis situations, to supply extra liquidity to stabilise markets and financial institutions. The Riksbank's ability to act as 'the banks' bank' is thus a precondition both for fulfilling the objective of price stability and for promoting financial stability. Additionally, the Riksbank is responsible for providing the country with banknotes and coins.

Safe and efficient cash provision

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

Secure and efficient financial transfers

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

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

Preventive work and crisis management

One precondition for the stability of the financial system, and thus the economic system as a whole, is that cash supply and the payment system function well in a more general sense. In line with international practice, the Riksbank defines financial stability as meaning that the financial system can maintain its basic functions and also has resilience to disruptions that threaten these functions. It is important that both the Riksbank and the central banks of other countries, together with other relevant authorities, work to reduce the risk of financial crises and ensure their ability to manage serious shocks that could arise in the financial system.

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

The Riksbank makes recommendations, not only to banks and other participants in the financial markets but also to legislators and other authorities, with the aim of getting them to understand and rectify the risks identified.

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

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

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

The Riksbank's independence

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

The Executive Board of the Riksbank takes monetary policy decisions without seeking or taking instructions from any other party. By delegating the task of maintaining price stability to the Riksbank, the Riksdag has ensured that monetary policy is based on a long-term perspective and has created the conditions for the credibility of the inflation target.

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

Openness and communication

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

At the same time, the independent status of the Riksbank places great demands on communications and the transparency of the Riksbank's activities so that these can be examined and evaluated by the general public and the Riksdag.

A review of the Sveriges Riksbank Act

In December 2016, the Government decided to appoint a cross-party parliamentary committee with the task of performing a review of the monetary policy framework and the Sveriges Riksbank Act. On 29 November 2019, the committee presented its final report, A new Sveriges Riksbank Act (SOU 2019:46), to the Government. In April 2020, the General Council of the Riksbank and the Executive Board of the Riksbank presented, on the basis of their respective mandates, their consultation responses to the Riksbank Inquiry's final report. Information on the General Council's response to the Riksbank

Inquiry can be found in the General Council's account of activities 2020/21:RB2.

The Executive Board of the Riksbank supports the overall objectives for monetary policy in the Inquiry's proposal and that the Riksbank's responsibility for financial stability shall be confirmed by law. The Executive Board also largely supports the proposals for amendments to the Sveriges Riksbank Act as regards the scope for the Riksdag to monitor the Riksbank and require accountability, both for monetary policy and financial stability and for the Riksbank's other operations. The proposals mean, for instance, that there will now be more bodies with a mandate to scrutinise the activities. However, the Riksbank considers it is important that the evaluation and scrutiny are effective and that the ban on instructions is not transgressed.

The Executive Board's main objections to the Inquiry's proposals concern the division and the demarcation made between monetary policy and financial stability, which involve limiting the monetary policy toolbox. If the proposed bill had applied during the coronavirus pandemic, it would have made it unclear what the Riksbank was allowed to do and limited the Riksbank's capacity to stabilise the economy and safeguard the credibility of the inflation target. The consultation response points out that the proposed bill means that it will take longer for the Riksbank to take action in crises, when time is of the essence. Limiting the Riksbank's financial independence by setting an upper limit for the size of its equity will also make it difficult for the Riksbank to implement measures quickly, flexibly and effectively when needed. This increases the risks to the Swedish economy, especially in a crisis. The Executive Board considers that the final draft legislation should contain more regulations of principle and reasoning and less detailed regulation.

The proposal for a new Sveriges Riksbank Act gives the Riksbank much greater responsibility for cash management. In its consultation response, the Executive Board agrees that the Riksbank's responsibility for supplying cash in Sweden is made clearer, but considers that there should be flexibility with regard to how this task is carried out. The Executive Board also states that it is inappropriate to legislate on the number of cash depots and where these should be situated, as this could lead to operations being organised inefficiently. The Executive Board of the Riksbank also points out that protection for cash as legal tender continues to be too weak and suggests ways to strengthen this protection.

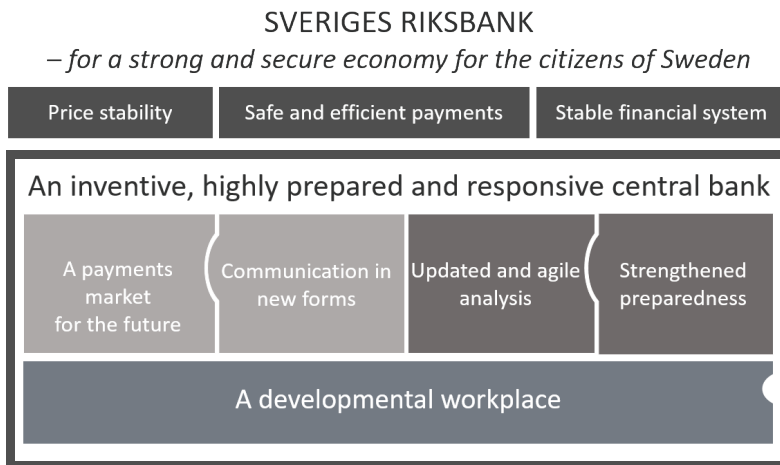
According to the proposed new Sveriges Riksbank Act, it will also be the Riksbank's responsibility to ensure the general public can make essential payments in crisis situations and in a heightened state of alert, which is to say during war or under threat of war. The proposal makes clearer demands for internal planning to ensure that the Riksbank can maintain its critical operations in crisis situations and in a heightened state of alert. The proposal also gives the Riksbank the right to adopt regulations and the possibility of demanding that participants handling electronic payments maintain critical operations in crisis situations and in a heightened state of alert. The Executive

Board supports the proposal to give the Riksbank an increased responsibility for preparedness with regard to electronic payments and cash management.

Operational management, vision and strategic priorities

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

Figure 1 The Riksbank's objectives 2019–2022



In December 2018, the Executive Board decided upon a new strategic plan to specify the direction of the Riksbank's development work for the years 2019 to 2022. This formulated three overall objectives and tasks for operations: Price stability, Safe and efficient payments and a Stable financial system. To keep fulfilling our objectives even when the conditions for our work are changing, a vision was formulated for 2022, which is that the Riksbank needs to be "an inventive, highly prepared and responsive central bank".

Five strategic priorities will help the Riksbank to realise its vision: A payments market for the future, Communication in new forms, Updated and agile analysis, Strengthened preparedness, and a Developmental workplace. These priorities were given more concrete form in twenty strategic initiatives to be implemented via action plans in the annual business plan.

The Riksbank's targets for different areas of activity are monitored using indicators in the business plan. Every four months, the Executive Board receives follow-up reports summarising the status of the indicators, the action plans for development work, the budget and the operational and financial risks.

Any measures or reprioritisation prompted by the results were discussed in conjunction with these follow-ups.

Reprioritisation due to the coronavirus pandemic

The vision of being “an inventive, highly prepared and responsive central bank” and the strategic priorities remain highly relevant despite the coronavirus pandemic. However, a number of planned development projects were delayed due to the pandemic, as the Riksbank focused on implementing crisis measures to support the Swedish economy and strengthen its ability to get through the crisis. In addition, the crisis contributed to delays in the transition to a new IT operational supplier, which, in turn, affected many projects depending on the Riksbank’s IT resources.

The short and long-term effects of the crisis were discussed in the follow-ups for the year and the autumn’s work on the business plan for 2021. These included everything from our working practices to the possible consequences of the pandemic for our main tasks in the longer term. One conclusion is that the Riksbank will have to continue to develop crisis preparedness, IT support and the capacity to conduct various types of market operation. In turn, this contributes to a need for the Riksbank to employ more staff than predicted by earlier strategic plan decisions.

Internal crisis management during the coronavirus pandemic

The coronavirus pandemic had a great impact on the Riksbank’s operations in 2020. The Crisis Management Group, consisting of the Riksbank’s Management Group, was activated at the end of February to coordinate internal crisis management. A number of measures were implemented to restrict the spread of infection among the Riksbank’s staff. The Riksbank has complied with the Public Health Agency of Sweden’s advice and recommendations and, for most of the year, an overwhelming part of the Riksbank’s staff worked from home.

Regular trade-offs were made between the need for teleworking and the operational need to have staff on site in the Riksbank’s premises. For psychosocial reasons, members of staff were given the opportunity to rotate more or less regularly between working at home and working in the Riksbank’s premises. The Riksbank conducted regular follow-ups of its staff’s working situations, via both their line managers and regular surveys. The Crisis Management Group also drew up guidelines for external visitors to the Riksbank building and for official travel. Members of staff regularly received information via their managers, through the intranet and at digital meetings with the Riksbank’s management.

Organisation

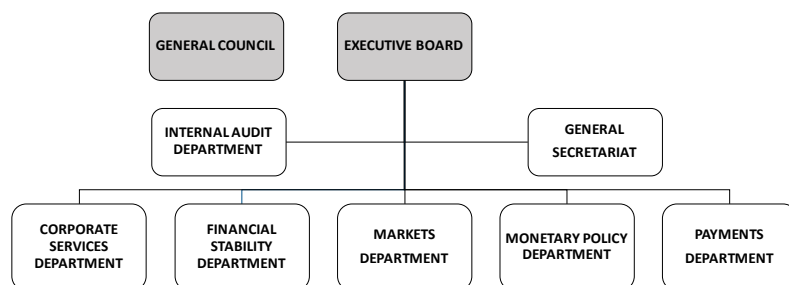
The Riksbank's operations are led by six Executive Board members, who are appointed by the General Council of the Riksbank. The General Council consists of representatives appointed by the Riksdag. The Riksbank is organised into seven departments, which, in turn, consist of various divisions. The Riksbank's Management Group consists of six Heads of Department and the Head of the Communication Division. No major organisational changes were made in 2020.

Management and organisation

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

In 2020, the Riksbank consisted of seven departments (see Figure 2 and Annex 1). A Management Group, consisting of the heads of all departments with the exception of the Internal Audit Department, has the task of coordinating and following up activities. The Head of the Communications Division is also a part of the Management Group, which is chaired by the Head of the General Secretariat.

Figure 2 The Riksbank's organisational structure in 2020



General Council of the Riksbank

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

In 2020, the General Council consisted of the following members: Susanne Eberstein (Chairperson), Michael Lundholm (Vice Chairperson), Hans Hoff, Hans Birger Ekström, Bo Broman, Marie Granlund, Peter Helander, Ali Esbati, Chris Heister, Mikael Eskilandersson and Caroline Helmersson Olsson. Deputy members over the year were Agneta Gille, Jonas Jacobsson Gjörtler, Thomas Strand, Sofia Fölster, Josef Fransson, Mathias Tegnér, Roger Tiefensee, ClasGöran Carlsson, Maria Plass, Sammy Almedal and Agneta Börjesson.

The General Council's tasks

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

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

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

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

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

In 2020, the General Council held nine meetings.

An account of the General Council's activities is presented in the General Council's submission to the Riksdag 2020/21:RB2 The General Council of the Riksbank's proposal for the allocation of profit 2020 and so forth.

The Executive Board of the Riksbank

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

and at least one Vice Chairman, who shall, at the same time, be First Deputy Governor of the Riksbank.

The Executive Board's tasks

The Executive Board has a joint responsibility for the focus, development and efficiency of the operations. The Executive Board establishes the Riksbank's organisation in more detail in the Instructions for Sveriges Riksbank. Furthermore, the Executive Board takes decisions regarding monetary and exchange rate policy, important issues in the area of financial stability, payment issues and the Riksbank's asset management. The Executive Board also decides on strategic objectives, business plan and budget. The Governor of the Riksbank has a mandate to follow up activities in relation to adopted plans and approved budget. The Governor of the Riksbank also has managerial responsibility for the heads of department.

The Executive Board makes decisions jointly at its meetings. In 2020, the Board held a total of 27 meetings, ten of which were monetary policy meetings. In addition, the Executive Board took 24 decisions by circulation.

At least twice a year, the Executive Board is required to present a written report on monetary policy to the Riksdag Committee on Finance. In 2020, members of the Executive Board participated at the Riksdag in two open hearings on monetary policy and one open hearing on financial stability.

Members of the Executive Board

In 2020, the Executive Board consisted of the following members:

Stefan Ingves

Stefan Ingves is Governor of the Riksbank and Chairman of the Executive Board. He took up the post on 1 January 2006. Since then, he has had his term of office extended twice by the General Council, most recently in September 2017 by a further five years until January 2023.

Stefan Ingves is a member of the General Council of the European Central Bank (ECB) and First Vice-Chair of the European Systemic Risk Board (ESRB). Furthermore, he is a member of the Board of Directors of the Bank for International Settlements (BIS) and Chairman of the BIS Banking and Risk Management Committee (BRC). Stefan Ingves is Sweden's representative on the Board of Governors of the International Monetary Fund (IMF), a member of the Nordic-Baltic Macropprudential Forum (NBMF) and a member of the Financial Stability Council.

Cecilia Skingsley

Cecilia Skingsley has been First Deputy Governor of the Riksbank since 8 November 2019. She took up the post of Deputy Governor on 22 May 2013

for a term of office of six years and, in 2019, received an extended term of office for another six years until 21 May 2025. She represents the Riksbank on the Committee on the Global Financial System (CGFS) and on the Euro Retail Payments Board (ERPB). She is also the Governor of the Riksbank's alternate on the ECB General Council, as well as a member of the General Board of the European Systemic Risk Board (ESRB) and its Advisory Technical Committee (ATC). Furthermore, Cecilia Skingsley chairs the Retail Payments Council and the Cash Handling Advisory Board, and is a member of the Financial Stability Council.

Anna Breman

Anna Breman has been Deputy Governor of the Riksbank since 1 December 2019, with a term of office of six years. She represents the Riksbank in the IMF cooperation between Sweden, the Netherlands, Belgium and Switzerland (G4) and on the Nordic-Baltic Monetary and Financial Committee (NBMFC). Furthermore, Anna Breman is the Riksbank's representative in the Network for Greening the Financial System (NGFS). She is also a deputy on the International Monetary and Financial Committee (IMFC) and is responsible for the Riksbank's Technical Assistance (TA).

Martin Flodén

Martin Flodén is Deputy Governor of the Riksbank. He took up the post on 22 May 2013 for a term of office of five years. In 2018, his term of office was extended by another six years. He represents the Riksbank in the OECD's Working Party 3 (WP3), the Basel Committee (BCBS), the Financial Stability Board (FSB) Regional Consultative Group for Europe (RCG-E) and the Bellegio Group.

Per Jansson

Per Jansson is Deputy Governor of the Riksbank. He took up the post on 1 January 2012 for a term of office of five years and, in 2016, received an extended term of office for another five years until 31 December 2021. He represents the Riksbank on the EU Economic and Financial Committee (EFC) and the Committee on the Global Financial System (CGFS) at the BIS. Furthermore, Per Jansson is the Governor of the Riksbank's alternate on the Board of Directors of the BIS.

Henry Ohlsson

Henry Ohlsson is Deputy Governor of the Riksbank. He took up the post on 12 January 2015 for a term of office of six years and, in 2020, received an extended term of office for another five years as of 12 January 2021. He represents the Riksbank on the International Relations Committee (IRC) of the

ECB and on the Regional Consultative Group for Europe (RCG-E) of the FSB. Since 2019, he has been one of two chairs for the FSB RCG-E.

External assignments of the Executive Board members

If a member of the Executive Board wishes to take up an external assignment in addition to their employment at the Riksbank, this must be approved by the General Council and reviewed every second year. Stefan Ingves has been elected Member of The Royal Swedish Academy of Engineering Sciences. He is temporarily postponing active membership. He is also Chair of the Board of Directors of the Toronto Centre. Martin Flodén is a Research Fellow at the Centre for Economic Policy Research. Henry Ohlsson is a member of the Nordic Tax Research Council and of Skatteakademien. In addition, he is an affiliated professor at the Uppsala Center for Fiscal Studies and the Uppsala Center for Labor Studies. Until 2020, Henry Ohlsson also participated in the Expert Group for Public Economics.

Maintaining the value of money – price stability

After several years with relatively good growth and strong development on the labour market, the coronavirus pandemic has brought about a sharp break in the trend. GDP is calculated to have fallen by 4.0 per cent in 2020, according to the Riksbank's forecast in November, while the employment rate decreased by around 1 percentage point and unemployment rose by around 1.5 percentage points. Inflation (CPIF), which had been close to the target of 2 per cent for a few years, fell heavily and averaged 0.5 per cent over the year. A large part of the monetary policy measures were aimed at ensuring that the credit supply in the economy functioned and that the interest rates faced by households and companies remained low, among other means through extensive purchases of bonds and lending to companies via banks. The repo rate was held at 0 per cent over the entire year.

Economic developments

Economic developments in 2020 were characterised by the effects of the coronavirus pandemic. In mid-March, extensive restrictions started to be introduced around the world to restrict the spread of the novel coronavirus. The restrictions and people's concerns over the virus crippled much of the economic activity, with heavy falls in production in Sweden and abroad as a consequence. However, the fall in GDP in Sweden was slightly smaller than it was abroad (see Chart 1).

During the summer months, the spread of infection slowed down and it became possible to see some signs of a recovery. A series of economic policy stimulation measures also contributed to this. However, the positive development was broken over the autumn when a second wave of infection impacted Europe and other areas. More stringent restrictions were introduced in many countries and the economic recovery thereby became less certain.

When the coronavirus pandemic broke out in earnest in mid-March, substantial turbulence arose on the financial markets with major stock market falls, rising yield spreads between high-risk bonds and government bonds, and high volatility. In conjunction with this, the Riksbank adopted a series of measures to alleviate credit granting and ensure that yield spreads could remain low. Yield spreads on the Swedish fixed-income markets thereby returned rapidly to earlier levels (see Chart 2). The stock exchanges also recovered quickly.

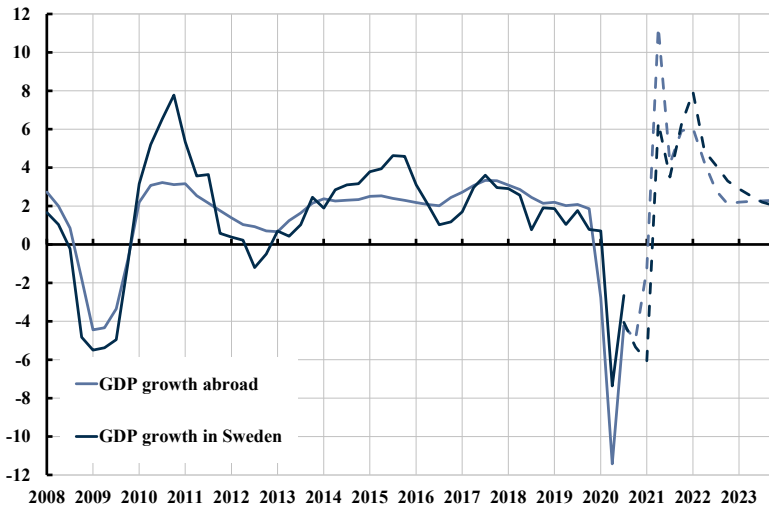
The Swedish krona also weakened against several currencies in the initial phase of the pandemic, which was reflected by the krona index (KIX) rising – a higher index means that the krona is weak (see Chart 3). After the initial weakening, the krona showed a strengthening trend over the year. This may

have had several causes, including the relatively good prospects for the Swedish economy and Swedish public finances over the spring and summer. In addition, the large risk appetite among investors continued over the autumn, which was probably also a contributory cause.

Energy prices fell in 2020, and this restrained CPI inflation. However, an unexpectedly large adjustment of the weights in the calculation of the CPI in connection with the outcome for January contributed to the rate of price increases becoming lower. Since the second half of 2019, CPI inflation has fallen from close to 2 per cent to between 0 and 1 per cent over most of 2020 (see Chart 4). The heavy slowdown in the economy created concern that the long-term inflation expectations (five years) would also fall, but the downturn in these was relatively moderate and expectations were fairly close to 2 per cent over the full year (see Chart 5).

Chart 1 GDP growth in Sweden and the world

Annual percentage change

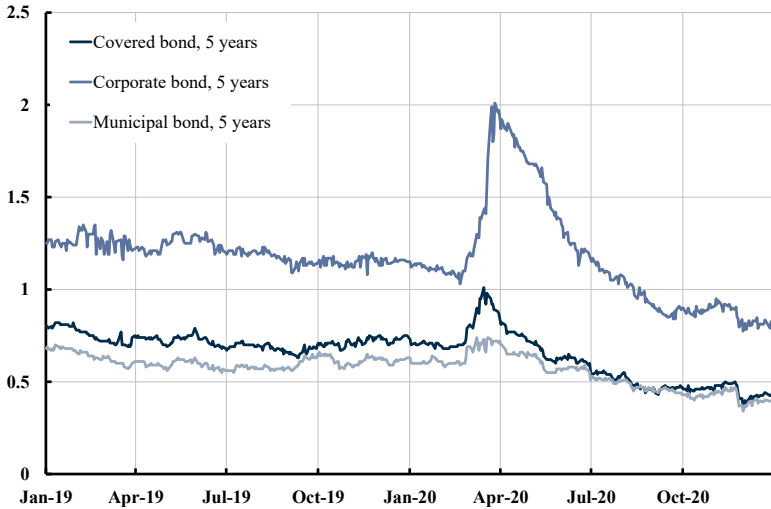


Note: GDP abroad is weighted using the weights in the krona index (KIX). The broken lines represent the Riksbank's forecast in November 2020. The chart shows the latest outcome series, which arrived after the Riksbank's forecast in November.

Sources: National sources, Statistics Sweden and the Riksbank.

Chart 2 Yield spreads between different types of bond and government bonds

Percentage points

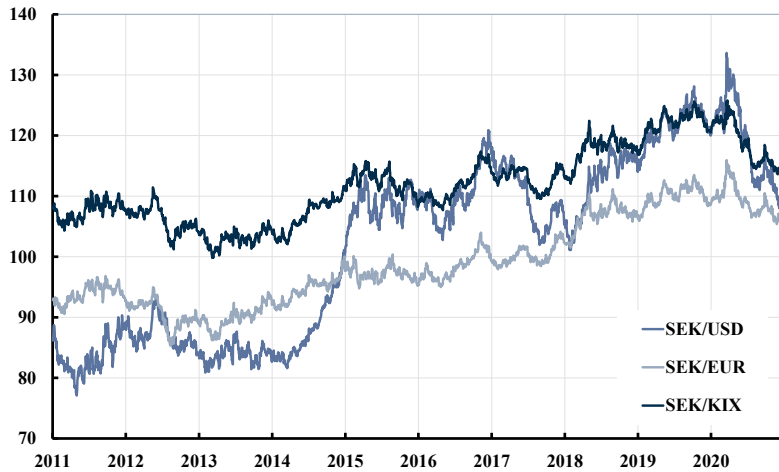


Note: Zero coupon rates calculated using the Nelson-Siegel method. The corporate bond series illustrates a heterogeneous group of bonds for companies with credit ratings of BBB or higher. Municipal bonds are issued by Kommuninvest i Sverige AB.

Sources: Macrobond, Refinitiv and the Riksbank.

Chart 3 Nominal exchange rate of the Swedish krona against KIX, euro and US dollar

Index, 18 November 1992 = 100

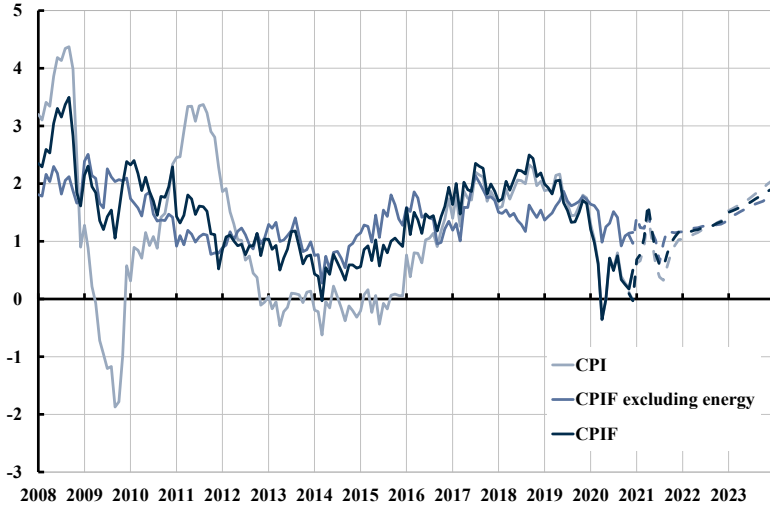


Note: The KIX (krona index) is a weighted average of the currencies in 32 countries that are important for Sweden's international trade. A higher value indicates a weaker exchange rate.

Sources: National sources and the Riksbank.

Chart 4 Inflation measured in terms of the CPI, CPIF excluding energy, and CPI

Annual percentage change



Note: The CPIF is the CPI with a fixed interest rate. The broken lines represent the Riksbank's forecast from November 2020.
Sources: Statistics Sweden and the Riksbank.

Chart 5 Inflation expectations among money market participants

Per cent



Source: TNS Sifo Prospera.

Monetary policy and the monetary policy meetings

The Executive Board of the Riksbank decided to hold five ordinary monetary policy meetings in 2020 (a reduction of one meeting from the previous six). In addition, five extraordinary monetary policy meetings were held, at which the Executive Board also decided on monetary policy measures. In conjunction with the ordinary meetings, a Monetary Policy Report was published, containing forecasts for the repo rate, inflation and other variables.

Like many other central banks, the Riksbank aimed its monetary policy measures during the coronavirus pandemic towards ensuring that the credit supply in the economy functioned and that the interest rates faced by households and companies remained low. The Riksbank implemented a long series of measures that are summarised in Table 1. Charts 6 and 7 summarise the bond purchases and Chart 8 shows the repo rate and repo rate path at the ordinary monetary policy meetings.

Ahead of the monetary policy meeting in February, economic developments both in Sweden and abroad had largely been in line with the forecasts of the Monetary Policy Report from December 2019. However, the novel coronavirus contributed to increasing uncertainty. At the meeting on **11 February**, the repo rate was unchanged at 0 per cent. The forecast for the repo rate was also held unchanged and indicated that the repo rate would remain unchanged for virtually the whole of the forecast period.

Over the first weeks of March, the novel coronavirus spread at an increasingly fast rate and the global economy started to be increasingly impacted. The turbulence in the financial markets meant that the funding situation for companies risked rapidly deteriorating, above all for small and medium-sized enterprises. Consequently, on **12 March**, an extraordinary monetary policy meeting was held, at which the Executive Board decided on targeted measures to secure the credit supply through a programme for corporate lending via banks. Among other things, the programme involved banks that are monetary policy counterparties together being allowed to borrow up to SEK 500 billion at a maturity of 2 years for onward lending to companies.

A few days later, on **16 March**, a further extraordinary monetary policy meeting was held. The restrictions for limiting the spread of infection in Sweden and abroad were expected to have major consequences for economic developments, particularly in the aviation, hotel and travel industries. Swedish GDP was expected to fall by several percentage points during second quarter and employment was expected to decline substantially. Developments in the financial markets indicated that the Swedish fixed-income markets functioned poorly with increasingly large yield spreads between high-risk bonds and government bonds. The Executive Board therefore decided on further measures to support the credit supply and the development of the economy. Among other things, it decided to implement extended purchases of bonds of up to SEK 300 billion over the period March to December 2020.

The closing down of economies continued in many countries and uncertainty over the magnitude of the economic consequences also continued to rise. Contacts with the companies in the Riksbank's own business survey indicated a much worse situation than was indicated in the survey just two weeks previously. On **19 March** a third extraordinary monetary policy meeting was held, at which the Executive Board decided, for monetary policy purposes, to purchase corporate bonds, commercial paper and other assets within the scope of the bond purchase programme and to offer loans in US dollars. The Executive Board also decided to ease the requirements regarding the collateral the banks can use when borrowing from the Riksbank.

The coronavirus continued to spread rapidly throughout the rest of March and April. The closing down of many economies in Europe continued and, in the United States, the restrictions were extended to reduce the spread of infection. Clear signs of severe declines in economic activity in Sweden also started to become visible. At the fourth extraordinary monetary policy meeting on **26 March**, the Executive Board therefore decided to initiate purchases of commercial paper, in accordance with the Executive Board's decision from 19 March. The decision entailed purchases of commercial paper issued in Swedish krona by non-financial corporations to a nominal amount of SEK 4 billion. At the fifth extraordinary monetary policy meeting on **21 April**, the Executive Board decided to initiate purchases of municipal bonds within the framework of the previously adopted programme of 16 March. The decision meant that the Riksbank would purchase bonds issued by Swedish municipalities and regions and by Kommuninvest i Sweden AB for a nominal amount totalling SEK 15 billion.

By the ordinary monetary policy meeting in April, it had become clear that the coronavirus would have a very severe impact on the world's economies. At the monetary policy meeting of **27 April**, the Executive Board decided to hold the repo rate unchanged at 0 per cent but to purchase of government and mortgage bonds for SEK 18 and SEK 85 billion respectively up until the end of September 2020, within the previously adopted framework decision. Due to the uncertain situation, one scenario for the repo rate was shown just one year ahead, in which it was unchanged at 0 per cent.

In June, new information received since the last Monetary Policy Report indicated that the decline in GDP growth would be on a par with that experienced during the global financial crisis. In addition, unemployment was expected to continue to rise and inflation to be below target. There were certainly signs of the beginning of a recovery but uncertainty over developments was nevertheless large. At the monetary policy meeting on **30 June**, the Executive Board of the Riksbank decided on further monetary policy measures to alleviate the financial consequences of the pandemic. The framework for asset purchases was extended from SEK 300 billion to SEK 500 billion up to the end of June 2021. The Executive Board also decided to start purchasing government bonds, cut interest rates and extend maturities on the lending to the banks in September. The repo rate was left unchanged at 0 per cent and the forecast

for the repo rate indicated that it would remain unchanged for the whole of the forecast period.

By the monetary policy meeting in September, the assessment was that the monetary policy measures had helped mitigate the effects of the coronavirus pandemic on the economy and that the measures had created the conditions for an economic recovery. At the monetary policy meeting of **21 September**, the Executive Board decided to leave the repo rate unchanged at 0 per cent, while the forecast for the repo rate indicated that it would stay unchanged over the entire forecast period. The Executive Board also decided to continue to conduct extensive purchases of bonds and to offer liquidity within all of the programmes launched over the year.

The coronavirus pandemic continued to dominate developments in the global economy over the autumn. A second wave of infection impacted many countries in Europe and tightened restrictions to restrain the spread of infection were introduced in many parts of the world. Growth forecasts were revised downwards for Sweden and other countries. Inflation prospects were also expected to be a little weaker over the coming years. At the monetary policy meeting on **25 November**, the Executive Board decided, among other things, to expand the envelope for the asset purchases by SEK 200 billion, to a total nominal amount of up to SEK 700 billion, and to extend the asset purchase programme to 31 December 2021. The decision also involved increasing the pace of asset purchases during the first quarter of 2021, in relation to the fourth quarter of 2020. In addition, the purchases would now also include treasury bills and green sovereign and municipal bonds to ensure the broadest possible impact on rate setting. The Riksbank would only offer to buy corporate bonds issued by companies deemed to comply with international standards and norms for sustainability. The repo rate was held unchanged at 0 per cent and was expected to remain at that level in the coming years.

Deputy Governors Anna Breman and Martin Flodén entered reservations against the decision to expand the Riksbank's asset purchase programme by SEK 200 billion and to include treasury bills in the programme. Ms Breman advocated that the programme should instead be expanded by SEK 100 billion during the second half of 2021. Mr Flodén thought that the Riksbank should pledge that monetary policy would remain expansionary as long as necessary without immediately deciding on purchase sums for the second half of 2021. They supported the other decisions.

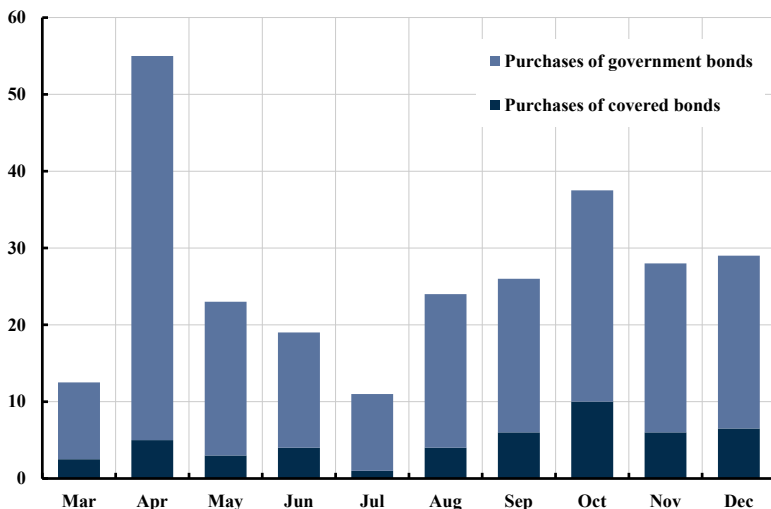
Table 1 Monetary policy measures during the coronavirus pandemic

Measure	Aim
Funding for lending programme	Supporting the credit supply to non-financial corporations.
Extensive asset purchases of government bonds, municipal bonds, covered bonds, treasury bills, corporate bonds and commercial paper.	Contributing to low interest rates throughout the economy and a smoothly functioning credit supply, and in this way creating favourable conditions for the economy to recovery and inflation to rise towards the target.
Cutting the interest rate in the standing loan facility.	Ensuring that the overnight rate on the market for Swedish kronor is close to the repo rate. Making it cheaper for the banks to get access to overnight loans.
Weekly market operations whereby banks are offered loans against collateral at three and six months maturities at the repo rate.	Strengthening the banks' access to liquidity in Swedish kronor to facilitate their funding and their role as suppliers of credit for Swedish companies.
Easing collateral requirements for borrowing from the Riksbank.	Reinforcing the banks' access to liquidity in Swedish kronor.
Loans in US dollars.	Reinforcing access to liquidity in US dollars in the Swedish financial system.

Note: For a more detailed description of the Riksbank's measures during the coronavirus pandemic and the current utilised amount, see <https://www.riksbank.se/sv/press-och-publicerat/aktuellt-om-riksbanken-och-coronapandemin/riksbankens-atgarder-i-samband-med-coronapandemin/>.

Chart 6 The Riksbank's purchases of covered bonds and government bonds in 2020

SEK billion

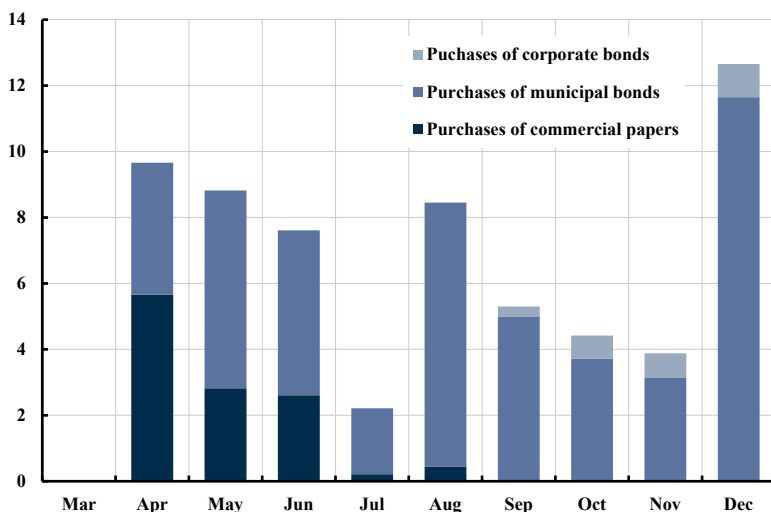


Note: Government securities include government bonds and treasury bills, although no treasury bills were purchased in 2020. The figures show total purchases per month under the framework of the various programmes of measures and not the current holding per month.

Source: The Riksbank.

Chart 7 The Riksbank's purchases of corporate bonds, commercial paper and municipal bonds in 2020

SEK billion

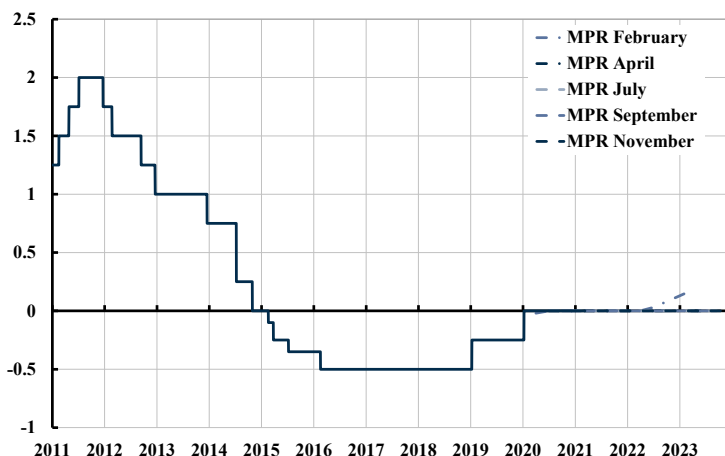


Note: The figures show total purchases per month under the framework of the various programmes of measures and not the current holding per month.

Source: The Riksbank.

Chart 8 Repo rate and repo rate forecasts

Per cent



Note: The unbroken line represents outcome (daily data) and the broken lines represent the Riksbank's forecasts (quarterly averages). The marginal upswing around 2023 in one of the repo rate forecasts is the forecast from the MPR February.

Source: The Riksbank.

Target fulfilment

The Riksbank's monetary policy is evaluated by the Riksdag Committee on Finance. For this evaluation, the Riksbank compiles the report Account of Monetary Policy, which is published in the month of March following the year evaluated. Among other things, this report describes how inflation and the economy have developed over the past year. The report for 2020 will be submitted to the Riksdag in March 2021.

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

When the fulfilment of monetary policy objectives is assessed, consideration needs to be taken not only of how inflation has developed, but also of developments in the economy. However, both inflation and the economy are constantly impacted by unexpected shocks, meaning that deviations from the inflation target are the rule rather than the exception.

Inflation in 2020

CPIF inflation was close to the Riksbank's inflation target of 2 per cent in 2018, while, in 2019, it was a few tenths below target. In 2020, the inflation

figures were affected to a great extent by the effects of the coronavirus pandemic, meaning that the development of prices was weaker and more volatile than in previous years. Some of the price movements were due to actual price falls, while others were the result of temporarily amended measurement methods, which is to say how Statistics Sweden handled prices of products that were no longer being consumed, for example package holidays, sporting events and theatre visits, and how price data was being collected. On average, CPIF inflation was 0.5 per cent in 2020; see Table 2. CPIF inflation excluding energy also indicated that inflation was low and below the inflation target. This measure of inflation was 1.3 per cent in 2020.

Table 2 Comparison of different measures of inflation

Annual percentage change

	Annual average		
	2018	2019	2020
CPIF	2.1	1.7	0.5
CPIF excluding energy	1.4	1.6	1.3
CPI	2.0	1.8	0.5

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

Sources: Statistics Sweden.

The development of the economy in 2020

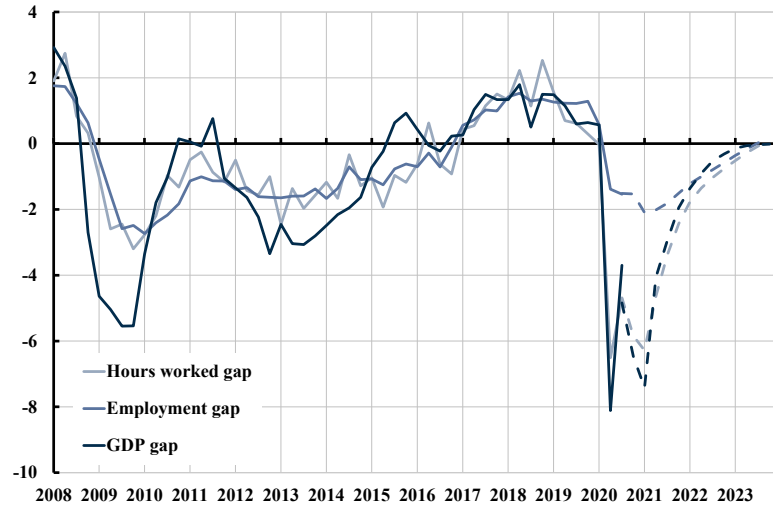
The amount of spare capacity in the economy, which is to say resource utilisation in the economy, affects how prices and thereby inflation develop. However, resource utilisation cannot be measured exactly and the Riksbank therefore makes an assessment on the basis of various indicators, with some of the most important being the GDP gap, the hours gap and the employment gap (which show the deviation of GDP, working hours and employment from their respective estimated trends). These indicated that resource utilisation was significantly lower than normal in 2020 and that it was expected to take several years before it would become normal again (see Chart 9). The downturn in the GDP gap was larger than in the employment gap. The system for short-time work compensation restrained the downturn in employment and hindered a larger increase in the number of bankruptcies. At the same time, it meant that the hours worked in the economy fell more than employment, as staff on short-term layoffs reduced their working hours but were still employed.

Unemployment rose strongly due to the coronavirus pandemic (see Chart 10). However, developments differed somewhat from sector to sector. The service sector was impacted particularly heavily, above all within the hotel and restaurant industries. Following an almost trend rise in both the employment rate and the labour force participation rate over the last ten years, these positive trends were broken. The employment rate fell by about 1 percentage point over

the year. The labour force participation rate fell in conjunction with the outbreak of the pandemic but it has since recovered and, at the end of the year, was at about the same level as prior to the pandemic.

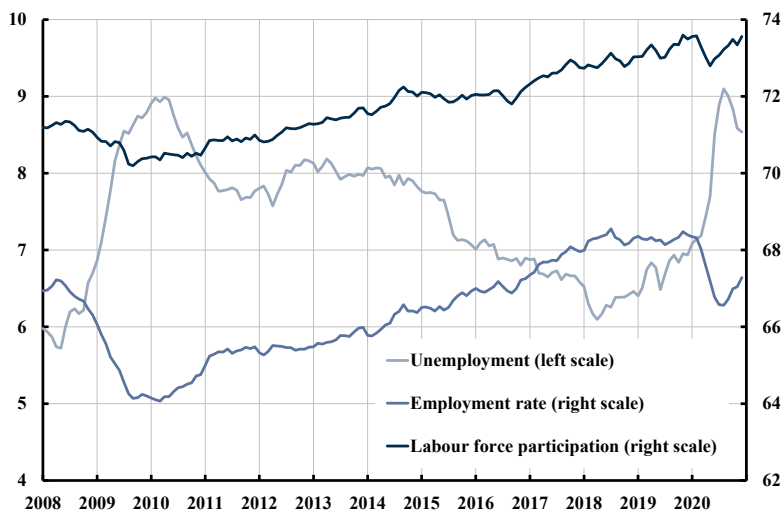
Chart 9 GDP gap, employment gap and hours gap

Per cent



Note: The gaps refer to the deviation in GDP, the number of hours worked and the number of those employed from the Riksbank's assessed trends. The broken lines represent the Riksbank's forecast from November 2020.

Sources: Statistics Sweden and the Riksbank.

Chart 10 Labour force participation, the employment rate and unemployment*Per cent*

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

Monetary policy development work

The monetary policy development work over the year focused very much on the coronavirus pandemic and its economic consequences. Apart from this, among various other issues, the Riksbank analysed changes in the macroeconomic environment that had already been observed before the pandemic and the way in which climate change could affect the Riksbank's work. The Riksbank also continued the previous years' work on increasing knowledge of the various driving forces behind the development of the exchange rate. The results, which shed light on the depreciation of the krona between 2013 and the start of 2020, among other things, are planned for publication in 2021.

The coronavirus pandemic

Several Economic Commentaries and articles in the Monetary Policy Report dealt with the consequences of the coronavirus pandemic. When the pandemic hit with full force in mid-March, the Riksbank needed more real-time data to enable it to gain a rapid understanding of the economic consequences of the pandemic. Real-time data was collected from other government agencies, from various websites and in collaboration with various commercial data suppliers. The results of this work were published in an Economic Commentary. The Riksbank also supplemented the information from the real-time indicators by

conducting telephone interviews with major Swedish companies on their views of the current state of the economy.

Another Economic Commentary showed that it has become more difficult to calculate reliable measures of inflation. This primarily concerned prices of products that are no longer consumed, but also the method in which price data is collected.

The pandemic has made it harder to compare labour market data between countries, which was also addressed in an Economic Commentary. These comparisons were made more difficult by factors such as government support for short-time work compensation schemes following different regulatory systems in different countries. In Sweden, people on short-time work compensation schemes are counted as employed and receive wages. There are thus fewer unemployed people in the labour market statistics than otherwise would have been the case. Sweden's system resembles that of Germany, while in Finland and Norway, for example, the short-time work compensation schemes are different. There, employees on such schemes full-time are counted as unemployed in the register-based statistics.

In an article, the Riksbank pointed out that investment usually falls in economic crises, which can have negative and long-lasting effects on productivity for example. In addition, the pandemic may be hastening structural transformation in some sectors, above all in those undergoing rapid digitalisation. This could have positive effects on productivity but may also entail higher unemployment over a period of adjustment. If unemployment becomes entrenched, the know-how and skills of unemployed people can deteriorate, making it harder for them to find new work once demand has recovered. Short-time work compensation schemes, more places in education and training and other policy measures may mitigate these problems.

Monetary policy in a new macroeconomic environment

In a dynamic and productive market economy, the macroeconomic environment constantly changes. A couple of articles in Sveriges Riksbank Economic Review discussed some of the changes that had already been observed prior to the pandemic:

- weaker productivity growth
- a lower long-term real interest rate
- growing debts among households and states
- a weaker connection between inflation and resource utilisation
- more rapid digitalisation of the economy, together with a shift towards services

Monetary policy needs to consider these changes regardless of the pandemic. In addition, some of the changes – for example, public indebtedness and accelerating digitalisation – may be strengthened as a consequence of the pandemic.

One change that could affect economic developments is global warming as a result of climate change. The Riksbank needs to take this into account to be able to maintain price stability and a safe and efficient payment system. The Riksbank also needs to take part in the discussion on how central banks can contribute to reducing climate change. Among other things, the Riksbank contributes to this discussion by presenting research and other analysis concerning the impact of climate change on the economy. For example, an article in *Sve-riges Riksbank Economic Review* conducted an analysis of which measures are most effective in reducing carbon emissions, and an *Economic Commentary* discussed how climate change may affect the long-term real interest rate.

As part of adjusting the monetary policy analysis to new conditions and incorporating progress from research, a new macroeconomic model, MAJA, was put into use during the year. Compared with the previous model, it is primarily the international analysis that has been improved.

Articles focused on monetary policy and the articles in the *Monetary Policy Report* are published on the Riksbank website, together with other studies from the other departments of the Riksbank.

Asset management

The Riksbank's measures to alleviate the effects of the coronavirus pandemic on the Swedish economy marked asset management in 2020. A large number of monetary policy transactions were implemented via various lending programmes and asset purchases. These transactions changed the composition of the balance sheet and led to a considerable increase in the balance sheet total. Over the year, the value of the Riksbank's total assets increased by SEK 394.0 billion overall and amounted to SEK 1,294.0 billion at the end of the year.

The Riksbank is constantly prepared to implement various support measures. To ensure that this preparedness is good, the Riksbank evaluates the composition of its assets at least once per year. In addition, the Riksbank tests its ability to implement measures in regular contingency exercises. When the coronavirus crisis broke out in earnest in the spring, this preparedness helped the Riksbank to manage the turbulence arising on the financial markets rapidly.

Financial assets and liabilities

The Riksbank manages financial assets to ensure that it can fulfil its statutory objectives and perform its tasks. A large part of these assets are made up of the gold and foreign currency reserves. This gives the Riksbank the possibility, if necessary, to supply temporary liquidity assistance in foreign currency and to intervene on the foreign exchange market. The foreign currency reserves consist of debt securities in foreign currencies with high liquidity and low credit risk, primarily government bonds.

The Riksbank also holds monetary policy assets, which mainly consist of the Swedish nominal and real government bonds that the Riksbank purchased over the period 2015–2020 for monetary policy purposes. Due to the Riksbank's measures in connection with the coronavirus pandemic in 2020, the monetary policy assets now also consist of Swedish covered bonds (mortgage bonds), municipal bonds and corporate debt securities (corporate bonds and commercial paper). The monetary policy assets also include the Riksbank's loans against collateral to monetary policy counterparties and temporary monetary policy counterparties.

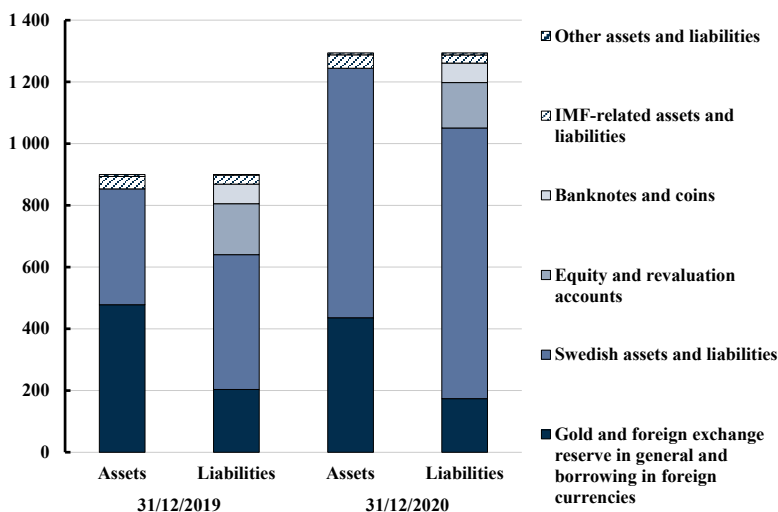
The Riksbank's assets also include receivables from the IMF, as the Riksbank is the authority in Sweden that is responsible for the obligations ensuing from Sweden's membership of the Fund. The Riksbank stands prepared to use its gold and foreign currency reserves to lend money to the IMF, which, in turn, lends money to countries with balance of payment problems.

The Riksbank's financial liabilities mostly consist of deposits in Swedish kronor. These deposits are mainly a consequence of the Riksbank's purchases of Swedish securities and lending in Swedish kronor. Through its purchases

and lending, the Riksbank has injected a large amount of liquidity into the banking system and, when the banks deposit part of their liquid assets with the Riksbank, a liability to the banks arises. The Riksbank also has financial liabilities in foreign currencies to the Swedish National Debt Office. These liabilities consist of US dollars and euros that the Riksbank has borrowed from the National Debt Office in order to strengthen the foreign currency reserves.

Chart 11 The Riksbank's balance sheet at the end of 2019 and 2020

SEK billion



Source: The Riksbank.

Table 3 The Riksbank's financial assets and liabilities at the end of 2020

SEK million

	Assets	Liabilities	Return		
			Interest	Currency	Total
Gold and foreign currency reserves	437,472	–	15,688	–8,370	7,318
Gold reserve	62,897	–	–	5,409	5,409
Foreign currency reserves	374,575	–	15,688	–13,779	1,909
Foreign currency loans	–	174,837	–2,701	–9,085	–11,786
Derivative instruments	–	–	–1	–29	–30
IMF	43,110	26,597	23	–2,629	–2,606
Monetary policy instruments	812,093	874,576	620	–	620
Securities in SEK	644,593	–	227	–	227
Deposits and lending	167,500	874,576	393	–	393
Total	1,292,675	1,076,010	13,629	–20,113	–6,484

Note: The table shows financial assets and liabilities in the Riksbank's balance sheet. The calculation of the return is based on both assets and liabilities and is reported in the table for the Riksbank's net receivables.

Source: The Riksbank.

In 2020, the balance sheet total increased by SEK 394.0 billion to SEK 1,294.0 billion, primarily due to the purchase by the Riksbank of securities in Swedish kronor to alleviate the effects of the coronavirus pandemic on the Swedish economy (see Chart 11). The Riksbank's equity (including the financial result for the year and the revaluation accounts) decreased by SEK 17.6 billion to SEK 147.3 billion, mostly due to the appreciation of the Swedish krona over the year. At the end of the year, the value of the Riksbank's financial assets amounted to SEK 1,292.7 billion (see Table 3). The total return on the Riksbank's financial assets and liabilities amounted to SEK –6.5 billion.

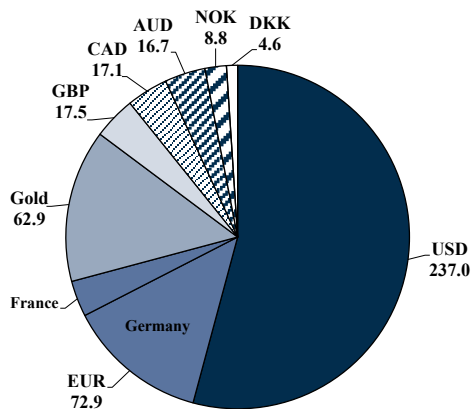
Gold and foreign currency reserves

The gold and foreign currency reserves are managed so that the Riksbank can always be ready to fulfil its commitments. The reserves must therefore be composed so that they can be used, when necessary, to provide temporary liquidity support to banks active in Sweden, to fulfil Sweden's part in the IMF's international lending and to intervene on the foreign exchange market. In addition, the reserves are designed to diversify risks and attain a long-term return that contributes to safeguarding the Riksbank's financial independence.

The Riksbank's preparedness to provide temporary liquidity assistance in foreign currency at short notice places heavy demands on the composition of the gold and foreign currency reserves. Consequently, most of the foreign currency reserves are maintained in those currencies in which emergency liquidity assistance may be needed and in such assets as can rapidly be converted into liquid funds, primarily government bonds in US dollars and euros (See Chart 12).

Chart 12 Composition of the gold and foreign currency reserves at the end of 2020

SEK billion



Note: The chart shows the market value of the gold and foreign currency reserves, including accrued interest.

Source: The Riksbank.

The foreign currency reserves were changed with the aim of attaining the long-term targets for return and risk

The Executive Board of the Riksbank decides on a financial risk and investment policy which establishes the principles for the Riksbank's investments in the gold and foreign currency reserves. Taking the contingency requirements as a starting point, the policy defines the composition of assets and currencies that acts as a framework for the management of the gold and foreign currency reserves. Some deviations from this composition are allowed, however, with the aim of reducing the risk or increasing the return of the reserves. The Riksbank also takes sustainability into account in the selection of assets by considering the carbon footprint of the assets in the foreign currency reserves. However, one condition is that this does not have a negative impact on the Riksbank's preparedness.

With the aim of attaining the long-term targets for return and risk specified in the financial risk and investment policy, the Riksbank changed the composition of the foreign currency reserves at the beginning of the year. The largest changes meant that the proportion of assets in US dollars and euros was decreased in favour of an expanded proportion of assets in Canadian dollars, pounds sterling and Norwegian kroner. Furthermore, the Riksbank chose to increase the interest-rate sensitivity of the foreign currency reserves, as this is considered to contribute towards higher returns. However, if the Riksbank is to be able to maintain a high level of preparedness, the interest-rate sensitivity of the foreign currency reserves must not be too high. On the other hand, interest-rate sensitivity can be allowed to vary between assets in different currencies to achieve the best balance between return and risk.

Later in the year, the foreign currency reserve's total interest-rate sensitivity was reduced when the reserves were used to alleviate the economic effects of the coronavirus pandemic. At the end of the year, the interest-rate sensitivity of the reserves amounted to 3.5, measured as modified duration.

The foreign currency reserves were used to alleviate the economic effects of the coronavirus pandemic

Over the year, the Riksbank took various measures to strengthen access to liquidity in US dollars in the Swedish financial system. In March, preparedness was increased through the sale, by the Riksbank, of assets in the foreign currency reserves equivalent to USD 10 billion. In addition, that same month, the Riksbank entered into an agreement with the US central bank, the Federal Reserve, on a swap facility (a mutual currency arrangement) of USD 60 billion as a preventive measure. The Riksbank thereby increased its preparedness to offer loans in US dollars to Swedish banks. The liquid funds from the sale in the foreign currency reserves were initially deposited in an account with the Federal Reserve. To achieve a higher return and simultaneously maintain a high level of preparedness, the Riksbank decided, after a time, to invest a large

part of the liquid funds in interest-bearing securities with short maturities issued by the Bank for International Settlements (BIS).

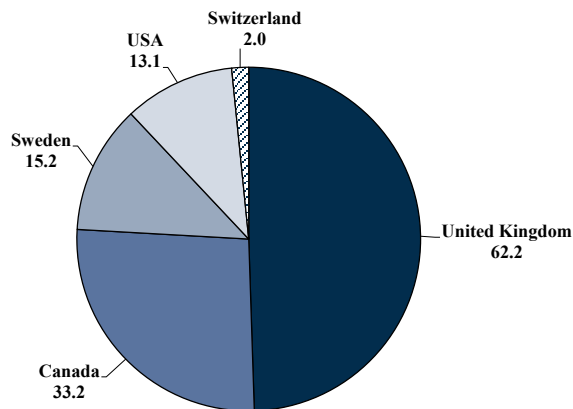
Supported by the increased preparedness to supply US dollars, the Riksbank introduced a lending programme in which the monetary policy counterparties would be able to borrow up to USD 60 billion from the Riksbank (see also the section Monetary policy instruments). Over the year, the Riksbank lent USD 2.0 billion under this programme. The Riksbank chose to fund the lending of dollars via the foreign currency reserves, meaning that the currency arrangement with the Federal Reserve did not need to be used during the year.

The gold reserve to be held unchanged

The Riksbank has a gold reserve that amounts in total to 125.7 tonnes of gold. The Riksbank owns gold largely due to gold's historical link to banknotes and coins. During a period when the gold standard was in use, among other things, the Riksbank was obliged to be able to redeem banknotes for gold. Nowadays, however, gold is a financial asset that, like the foreign currency reserves, aims to ensure that the Riksbank can carry out its tasks. The Riksbank's gold reserve is stored by the central banks in the United Kingdom (the Bank of England), Canada (the Bank of Canada), the United States (the Federal Reserve Bank of New York) and Switzerland (the Swiss National Bank), as well as at the Riksbank's own depot in Sweden (see Chart 13).

Chart 13 Storage of the gold reserve at the end of 2020

Tonnes



Source: The Riksbank.

Storing all of the gold in the same place would pose too much of a security risk, so the Riksbank stores the gold in different locations around the world. Almost half of the gold reserve is stored in the United Kingdom, where the

world's largest commercial gold market, the London Bullion Market, is based. This market is the most liquid and central marketplace for trading bullion. Holding it at the Bank of England allows a large part of the Riksbank's gold to be converted at very short notice, should the need arise. In this way, the gold can be considered a liquid asset.

As in previous years, the Riksbank also stored gold on behalf of one or more other central banks in 2020.

Positive return on the gold and foreign currency reserves

Over the year, the interest return on the foreign currency reserves, including price effects, amounted to SEK 15.7 billion. As the currencies in the reserves weakened against the Swedish krona, the return on foreign exchange was negative and amounted to SEK –13.8 billion. The return on the foreign currency reserves thereby amounted to SEK 1.9 billion.

Gold is traded and priced in US dollars, and, over the year, the price of gold expressed in dollars increased by 25 per cent. However, as the dollar weakened against the Swedish krona, the price of gold in kronor only increased by 9 per cent. The return on the Riksbank's holdings of gold thereby amounted to SEK 5.4 billion.

The Riksbank's financial commitment to the IMF

The Riksbank contributes towards the funding of the IMF via capital contributions and arrangements to borrow, and stands prepared to use the gold and foreign currency reserves to fulfil its commitments in relation to the Fund (see Table 4). The Riksbank's commitments in relation to the IMF are described in more detail in the sections International cooperation and Balance sheet and profit and loss account.

Table 4 The Riksbank's remaining financial commitment to the IMF

SDR and SEK, million

	31/12/2020		31/12/2019	
	SDR	SEK	SDR	SEK
Special Drawing Rights (SDR)	4,438	52,475	4,456	57,793
Capital contribution (quota)	3,413	40,360	3,752	48,655
New Arrangements to Borrow	2,159	25,532	2,129	27,609
Credit agreement	7,400	87,499	7,400	95,968
Poverty Reduction and Growth Trust	777	9,187	500	6,484
Total remaining commitment	18,187	215,053	18,237	236,509

Note: See also Notes 2, 22 and 41 in the section Balance sheet and profit and loss account for a more detailed account of commitments to the IMF.

Source: The Riksbank.

The commitment to the IMF increased in 2020 when the Riksbank entered into an agreement to expand the programme known as the Poverty Reduction and Growth Trust (PRGT) by 500 million Special Drawing Rights (SDR). With

the new agreement, the IMF can borrow up to SDR 1,000 million under the PRGT for onward lending to low-income countries. At the end of the year, the total agreed commitment to the IMF amounted to SDR 19.6 billion, corresponding to SEK 231.6 billion.

In 2020, the Riksbank's lending to the IMF was exclusively implemented in US dollars and it was mainly parts of the capital contribution to the IMF that was used for this lending. By injecting dollars corresponding to SDR 401 million into the Fund, the Riksbank contributed to IMF loans to Bolivia, Ecuador, Gabon and Nigeria. In addition to these transactions, the Riksbank also lent dollars in an amount corresponding to SDR 223 million under the PRGT and, on behalf of the IMF, the Riksbank purchased SDR 48 million from the BIS against payment in dollars. During the year, the Riksbank also received dollars back from previous lending under the New Arrangements to Borrow (NAB), when the Riksbank received repayments from Jamaica, Seychelles and Ukraine corresponding to a total of SDR 30 million. In addition, on behalf of the IMF, the Riksbank sold a total of SDR 31 million to the Bahamas, Dominican Republic, Madagascar, Malawi, Mauritania, Moldova and Nepal against payment in dollars and SDR 1 million to Cyprus against payment in euros.

In total, over the year, the Riksbank's transactions with the IMF contributed to reducing the remaining commitment to the IMF expressed in SDR and to reducing the foreign currency reserves by the equivalent of SEK 8.1 billion. The value of the Riksbank's receivables from the IMF was SEK 43.1 billion at year-end, while the value of the Bank's liabilities to the IMF was SEK 26.6 billion (see table 3). The interest return on net receivables amounted to SEK 23 million over the year.

Monetary policy instruments

Over the year, the Riksbank implemented a large number of support measures to alleviate the effects of the coronavirus pandemic on the Swedish economy (see the section Maintaining the value of money – price stability for a more detailed account of the Riksbank's support measures during the coronavirus pandemic). The various lending programmes and asset purchases led the total value of the Riksbank's monetary policy instruments to increase heavily. At the end of the year, the total market value of the Riksbank's monetary policy assets and liabilities amounted to SEK 812.1 billion and SEK 874.6 billion respectively (see Table 5).

Table 5 The Riksbank's monetary policy instruments at the end of 2020*SEK million*

	Assets	Liabilities	Return
Securities in Swedish kronor	644,593	–	227
Government bonds	377,068	–	–1,021
Covered bonds	217,752	–	1,036
Municipal bonds	46,422	–	191
Corporate bonds	3,051	–	5
Commercial paper	300	–	16
Deposits and lending for monetary policy purposes	167,500	874,576	393
Loans for onward lending to companies	164,500	–	0
Weekly market operations	3,000	–	13
Loans in US dollars	–	–	17
Standing facilities	–	494,574	345
Riksbank Certificates	–	380,002	18
Total	812,093	874,576	620

Note: The table shows monetary policy assets and liabilities in the Riksbank's balance sheet. The calculation of the return is based on both assets and liabilities and is reported in the table for the Riksbank's net receivables.

Source: The Riksbank.

Securities in Swedish kronor

Since February 2015, the Riksbank has purchased Swedish government bonds with the aim of making monetary policy more expansionary. To alleviate the effects of the coronavirus pandemic on the Swedish economy, the Riksbank intends to purchase Swedish securities in an amount of up to SEK 700 billion, up to 31 December 2021, in addition to purchases planned prior to the pandemic. The purchases are aimed at keeping interest rates in general at a low level and contributing to an efficient supply of credit. Under the framework of this programme, the Riksbank purchased Swedish government bonds, covered bonds (mortgage bonds), municipal bonds and corporate debt securities (corporate bonds and commercial paper) in 2020. All purchases during the year were carried out on the secondary market.

Purchases of government bonds

In 2020, the Riksbank extended its purchases of Swedish nominal and real government bonds and, over the year, the Riksbank purchased Swedish government bonds in a nominal amount of SEK 75.0 billion. The greater part of this amount, SEK 70.5 billion, referred to purchases of nominal government bonds. The purchases were carried out through a total of 41 auctions over the year.

At the end of the year, the market value of the Riksbank's holdings of Swedish government bonds amounted to SEK 377.1 billion. The remaining time

to maturity of the bonds then lasted from 17 months to 18 years. The Riksbank's holdings of Swedish nominal and real government bonds denominated in Swedish kronor amounted to 46 per cent of the nominal amount of the outstanding stock.

Purchases of covered bonds (mortgage bonds)

The purchases of Swedish securities were also extended to include Swedish covered bonds. In total, the Riksbank purchased covered bonds issued by seven Swedish institutions (Danske Hypotek AB, Länsförsäkringar Hypotek AB, Nordea Hypotek AB, Skandinaviska Enskilda Banken AB, Stadshypotek AB, AB Sveriges Säkerställda Obligationer and Swedbank Hypotek AB) in a nominal value of SEK 210.3 billion. The purchases were initiated in March and were carried out through a total of 35 auctions over the year.

At year-end, the market value of this holding was SEK 217.8 billion. The covered bonds then had a remaining time to maturity of between eight months and five years.

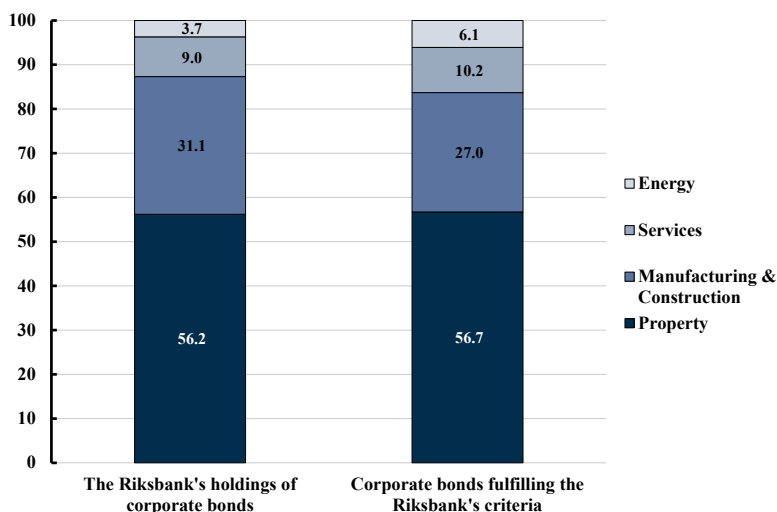
Purchases of municipal bonds

Over the year, the Riksbank also purchased bonds issued by Swedish municipalities and regions and by Kommuninvest i Sverige AB. In total, over the year, the Riksbank purchased municipal bonds in a nominal amount of SEK 45.0 billion. The majority of this amount, SEK 40.7 billion, referred to purchases of bonds issued by Kommuninvest i Sverige AB. These purchases were initiated in April and were carried out through a total of 17 auctions over the year. The purchases of bonds issued by municipalities and regions were initiated in May and were carried out through 12 auctions over the year. In total, the Riksbank purchased bonds issued by 19 different municipalities and regions.

At the end of the year, the market value of the Riksbank's total holdings of municipal bonds amounted to SEK 46.4 billion. The remaining time to maturity of the municipal bonds was between two months and six years at the end of the year.

Purchases of corporate bonds

Under the framework of the extended purchases of securities, the Riksbank also purchased corporate bonds issued by Swedish non-financial corporations. In total, the Riksbank purchased corporate bonds issued by 42 different companies in a nominal amount of SEK 3.0 billion. The purchases were initiated in September and were initially conducted bilaterally on the secondary market. At the start of December, the Riksbank also started to purchase corporate bonds on the secondary market through bid procedure.

Chart 14 The Riksbank's holdings of corporate bonds at the end of 2020*Per cent*

Note: The chart shows a sector-divided comparison of the Riksbank's holdings of corporate bonds and corporate bonds fulfilling the Riksbank's criteria for being included in the Riksbank's purchases.
Source: The Riksbank.

In its purchases, the Riksbank has made efforts to ensure that the total holding of corporate bonds reflects the market for corporate bonds in terms not only of sectors and issuers but also of the ratio between fixed and variable coupons, maturity and credit rating. Over the year, the purchases were divided among the sectors with bonds that met the Riksbank's criteria.

At the end of the year, the market value of the Riksbank's holding of corporate bonds amounted to SEK 3.1 billion. The holding then consisted of corporate bonds issued by 42 different companies and most of the holding, 56.2 per cent, consisted of bonds issued by Swedish property companies (see Chart 14). The remaining time to maturity for the corporate bonds was between four months and five years.

Purchases of commercial paper

Apart from corporate bonds, the Riksbank also purchased commercial paper issued by Swedish non-financial corporations. Over the year, the Riksbank purchased commercial paper issued by 25 different companies in a total amount of SEK 11.7 billion. The commercial paper was mostly issued by property companies. The purchases were initiated in April and, apart from the occasional week, the Riksbank held weekly auctions to purchase commercial paper for the rest of the year. The final bid in the year's auctions was received at the end of August and, over the autumn, the Riksbank's holding of commercial paper decreased as the paper matured.

By the end of the year, the holding consisted of two certificates with a total market value of SEK 300 million and a longest remaining time to maturity of two months.

Lending for monetary policy purposes

Alongside the expanded purchases of Swedish securities, the Riksbank also provided support via various lending programmes. The banks were given the opportunity to borrow up to SEK 500 billion from the Riksbank for onward lending to Swedish non-financial corporations. This secured the credit supply. The Riksbank also introduced weekly market operations with unlimited amounts of Swedish kronor to strengthen the banks' access to liquidity in kronor. The banks could also borrow up to USD 60 billion from the Riksbank, which strengthened access to liquidity in US dollars.

The Riksbank normally offers lending to the banks with the demand of receiving adequate collateral in exchange. To strengthen the banks' access to liquidity further, over the year, the Riksbank lowered the demands for collateral that the banks can use when borrowing from the Riksbank. This easing means that the rules on special limits for covered bonds have been removed. In addition, the Riksbank decided that own covered bonds, which is to say covered bonds issued by the counterparty or a closely linked party, may also be used as collateral.

As a further support measure, the Riksbank chose to enlarge the circle of monetary policy counterparties temporarily. Swedish credit institutions under the supervision of Finansinspektionen were given the opportunity to become temporary monetary policy counterparties and, as such, to participate in the Riksbank's programme for onward lending to non-financial corporations.

Loans for onward lending to companies

Under this programme, the Riksbank offered its monetary policy counterparties and temporary monetary policy counterparties the opportunity to borrow Swedish kronor at a maturity of up to four years at a variable rate corresponding to the Riksbank's repo rate. Over the year, the Riksbank lent a total of SEK 164.5 billion to eight counterparties for onward lending to non-financial corporations. This lending was carried out in the form of one-year loans that the counterparties have the option of extending for up to the maximum maturity of four years.

Weekly market operations

In the first weekly market operations, the monetary policy counterparties were offered the opportunity to borrow Swedish kronor with a maturity of three months at the repo rate plus 0.20 percentage points. In July, the interest rate was cut to the repo rate, at the same time as the monetary policy counterparties were also given the opportunity to borrow kronor at a maturity of six months.

Over the year, the Riksbank lent a total of SEK 28.7 billion to three counterparties in the weekly market operations. This lending was mainly carried out at a maturity of three months and at the repo rate plus 0.20 percentage points. After the interest rate adjustment in July, only one loan was carried out: this was a loan with a maturity of six months that had a remaining time to maturity of two months at the end of the year.

Loans in US dollars

Over the year, the monetary policy counterparties could borrow US dollars at a maturity of three months at a three-month dollar rate. Under this programme, the Riksbank lent USD 2.0 billion to one counterparty. This loan expired and was repaid over the year.

Deposits for monetary policy purposes

The Swedish banking system has a liquidity surplus against the Riksbank, which, in recent years, was mainly created by the purchase by the Riksbank of Swedish government bonds from the banks. Banks that are monetary policy counterparties to the Riksbank regularly deposit their liquidity surplus at the Riksbank through various monetary policy instruments such as standing deposit facilities overnight and Riksbank Certificates with a maturity of one week.

The borrowing from the banking system means that the Riksbank has a debt to the banks. At the end of the year, this debt amounted to SEK 874.6 billion, which is an increase of SEK 442.0 billion from the previous year. Above all, the increased liquidity surplus in the banking system was due to the Riksbank purchasing a large amount of Swedish securities and lending Swedish kronor. But it was also due to the decision by the Riksbank in May to fund the transfer of SEK 5.3 billion to the Treasury by supplying Swedish kronor to the banking system. Over the year, negative deposit rates led to total deposits generating SEK 363 million in interest income.

Analysis of the Riksbank's financial result and equity

The Riksbank's result derives largely from the development of the krona exchange rate, as well as international and Swedish interest rates. Recent years' falling interest rates have meant that the market value of the Riksbank's securities has increased, and this has temporarily meant a higher return and financial result. However, after a long period of low interest rates, interest income from the Riksbank's securities is relatively low. If interest rates remain low, interest income will also be low. If interest rates instead start to rise, interest income will gradually rise as the Riksbank's securities mature and are replaced by new ones. However, at the same time, the value of the securities will fall,

which will impair the total return on the Riksbank's assets (interest income plus change in market value) over the short term.

Like several other central banks, the Riksbank has interest-free funding in the form of banknotes and coins. This provides conditions for a good net interest income that can contribute to the Riksbank's total return. The part of the net result that can be attributed to banknotes and coins is usually called seigniorage. Seigniorage makes a positive contribution as long as the nominal return on the assets is greater than the cost of manufacturing the banknotes and coins (which is usually quite a low cost). However, the amount of outstanding banknotes and coins has fallen heavily over the last decade, which means that the Riksbank's possibilities of making seigniorage gains have also decreased.

The size of the net return over the long term is not just due to seigniorage, however, but also to the average difference between the interest rate levels of assets and liabilities. The support measures implemented by the Riksbank in 2020 led to a rapid increase in deposits in Swedish kronor by the Riksbank's counterparties. These deposits form the greater part of the Riksbank's liability side. The interest expense for this liability is directly linked to the Riksbank's monetary policy operational framework, meaning that if the repo rate is raised, the Riksbank's interest expenses will also increase. As the Riksbank's assets largely have long interest-rate fixation periods, and deposits in kronor are at a short-term interest rate, revenue and expenditure can fall out of step and the net result may vary more than previously. This is usually called a rising interest rate risk.

The Riksbank's financial result is expected to be lower over the next few years

The total return on securities in Swedish kronor was marginally positive in 2020. The total net effect of the result was also affected positively by the Riksbank being paid for funding the holdings (with deposits in Swedish kronor). As the repo rate and the deposit rate were 0 per cent and -0.10 per cent respectively over most of the year, the average interest rate for funding was just below 0 per cent. Swedish interest rates are expected to remain at relatively low levels over the next few years, meaning that the net return on the bond holdings in kronor can also be expected to be close to zero.

In 2020, the value of the Riksbank's foreign securities was positively affected as foreign interest rates fell. However, as the krona appreciated over the year, the total return expressed in kronor was negative. Interest rates abroad are expected to remain on relatively low levels over the next few years. The return on the foreign currency reserves can therefore be expected to be relatively low.

The low level of interest rates thus means that the Riksbank's result for the next five years is expected to be considerably lower than was the case over the previous five years. If the krona appreciates heavily or if interest rates rise significantly, the Riksbank may make significant losses. If the rise in interest

rates is strong, the Riksbank's ability to make dividend payments to the government will decline temporarily and dividends may cease entirely in some years.

The Riksbank is making provisions for financial risks

In recent years, monetary policy has changed substantially as a result of crises and structural changes. Among other things, this has resulted in the Riksbank using its balance sheet more actively as a monetary policy tool. This development has accelerated with the measures adopted by the Riksbank during the coronavirus pandemic.

Even though the Riksbank's financial assets are low-risk, recent developments mean that the total risks on the balance sheet have increased. This means that the Riksbank's result may vary more than previously, which, in turn, means that there may be both periods with larger gains and periods with larger losses compared with previous periods when the balance sheet was smaller. The Riksbank has buffers in the form of equity and unrealised gains in the revaluation accounts that would contribute to the Riksbank's financial resilience if losses were to arise in the next few years, for example if the krona were to appreciate or market rates were to turn upwards again. But the risks have now increased so much that losses could result in the Riksbank's equity becoming too low.

As the total buffer has not grown at the same rate as the Riksbank's financial risks have increased, the Executive Board has decided to make a provision for financial risks of SEK 5 billion, as the Sveriges Riksbank Act and the accounting guidelines of the ESCB grant it the possibility to do. The risk provision reduces both the reported and the dividend-qualifying result by SEK 5 billion. The dividend-qualifying result before provisions was just below SEK 13 billion in 2020, which is twice as high as the average for the last ten years.

The decision to make provisions has been taken in a situation in which the Riksbank has made relatively large gains in recent years, which normally contributes to greater dividend payments to the government, at the same time as the bank needs a larger buffer against losses than it has at present. The Riksbank deems that, in the longer term, the buffer will have to increase by SEK 15–50 billion.

The risk provision will be a first step towards strengthening the buffer, as the Riksbank will retain part of the dividend-qualifying profit on its balance sheet. This will mean that dividend payments to the government will decrease over the short term, but, in years in which the Riksbank makes losses, it will be possible to use the provisions to strengthen the result and to help keep dividends up. Risk provisions can therefore be seen as a way of reallocating profits and dividends over time.

Above all, the strengthening of the buffer will help the Riksbank to maintain sufficient financial resources to be able to carry out its tasks inde-

pendently, even in less advantageous situations. The risk provisions thus contribute to the Riksbank's financial independence and strengthen the Riksbank's possibilities for performing its statutory tasks.

Result measures and seigniorage

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

The broadest measure of the result can be termed *total result* and describes how the Riksbank's equity (including the financial result for the year and the revaluation accounts) has changed over the year. The total result for 2020 amounted to SEK –12,331 million. In that the Riksbank paid SEK 5,300 million in dividends to the government over the year, equity decreased by $12,331 + 5,300 = \text{SEK } 17,631$ million.

The total result can be divided up into different components. For example, a distinction can be made between realised and unrealised results. Realised results arise, for example, when the Riksbank earns interest on its bank balances and securities, in the sale of previously purchased securities or in the payment of wages. Unrealised results arise when the market value of assets that the Riksbank still owns changes, for example if the price of gold changes. Another way of dividing up the Riksbank's result is to separate items relating to interest rates and securities holdings from items relating to gold and currency holdings.

In Table 6, the total result for 2020, that is SEK –12,331 million, has been divided into four parts. The realised result from interest rates and securities amounted to SEK 9,064 million. This includes the Riksbank's interest income and interest expenditure and the net result of all transactions and write-downs relating to securities, and risk provisions. It also includes the item 'Other income', which largely consists of fees from users of the RIX payment system. To this can be added costs for personnel, administration and depreciation. The realised result from gold and currency transactions, including write-downs, amounted to SEK –13,337 million. The unrealised result due to changed interest rates amounted to SEK –1,282 million, while the result relating to changed gold prices and exchange rates was SEK –6,776 million.

Table 6 Result matrix

SEK million

	Interest and securities	Gold and currency
Realised result	9,064	–13,337
Unrealised result	–1,282	–6,776

Source: The Riksbank.

The Riksbank's *reported result*, which is the result taken up in the Riksbank's profit and loss account, comprises all the realised results stemming from interest rates and securities transactions as well as from gold and currency transactions. The Riksbank's reported result for 2020 thus amounted to $9,064 - 13,337 = \text{SEK } -4,273$ million.

The result on which the dividend to the government is based comprises both realised and unrealised results linked to interest rates and securities, but excludes results relating to gold and currency. In 2020, this *dividend-qualifying result* amounted to $9,064 - 1,282 = \text{SEK } 7,782$ million. The size of the dividend itself is derived by calculating the average of the result over the past five years and multiplying it by 80 per cent. A compilation of how the different results relate to each other is presented in Table 7.

What is seigniorage?

The Riksbank's *seigniorage* is the part of the Bank's reported result that arises from the right to issue banknotes and coins. The value of all banknotes and coins in circulation is reported as a liability on the Riksbank's balance sheet. At year-end 2020, this value amounted to SEK 62,853 million. The Riksbank does not pay interest on this liability but incurs costs for managing banknotes and coins. Of the Riksbank's total costs for personnel, administration and depreciation of SEK 1,002 million, SEK 150 million were calculated costs for cash provision, that is to say managing banknotes and coins (see the section The profit and loss account and balance sheet by function).

By issuing banknotes and coins, the Riksbank can finance assets of the same value, but the Riksbank has no earmarked assets that exactly correspond to the item banknotes and coins. A standard calculation is therefore used when estimating the earnings from these assets. As the stock of banknotes and coins averaged 5.21 per cent of the balance sheet, it is assumed that 5.21 per cent of the earnings come from the assets corresponding to banknotes and coins. Calculated in this way, SEK 319 million of the Riksbank's total interest income from assets of SEK 6,114 million (SEK 6,478 million excluding interest income regarding deposits from the Riksbank's counterparties of SEK 364 million) can be said to come from these assets. Similarly, SEK 803 million of the total net result of financial transactions, excluding write-downs and financial risk provision, of SEK 15,418 million can be said to come from the assets corresponding to banknotes and coins. The net amount of the Riksbank's earnings and costs that can be related to banknotes and coins thus amounted to $319 + 803 - 150 = \text{SEK } 972$ million. It is this sum that is called the Riksbank's seigniorage.

The size of the Riksbank's seigniorage has decreased in recent decades, due both to the low level of interest rates and to the fact that the total value of banknotes and coins in circulation has decreased. Seigniorage for the year was SEK 796 million lower than the corresponding value for the financial year 2019, as the net result of financial transactions was unusually large in 2019.

The seigniorage for 2020 was only slightly larger than the Riksbank's administrative expenses. This comparison is important, as one condition for the Riksbank to be considered financially independent is that the Riksbank is able to take responsibility for its own costs. Under the current low level of interest rates, with long-term bond rates close to 0 per cent, seigniorage can be expected to continue to remain low in the period ahead.

Table 7 Result measures 2020

SEK million

	Total	Reported	Basis for dividend
Interest income	6,478	6,478	6,478
Interest expense	-2,840	-2,840	-2,840
Net result of financial transactions and write-downs	-2,042	-2,042	11,295
of which, sale of securities and gold and currency respectively	11,532	11,532	11,532
of which, write-downs of securities and gold and currency respectively	3,886	3,886	-
	-237	-237	-237
	-17,223	-17,223	-
Net result of changes in value (unrealised result)	-8,058	-	-1,282
of which, changes in value of securities and gold and currency respectively	-1,282	-	-1,282
	-6,776	-	-
Financial risk provision	-5,000	-5,000	-5,000
Other income	133	133	133
Total net income	-11,329	-3,271	8,784
Personnel and administration costs and depreciation	-1,002	-1,002	-1,002
of which, costs for managing banknotes and coins	-150	-150	-150
other costs	-852	-852	-852
Result for the year	-12,331	-4,273	7,782

Source: The Riksbank.

A stable financial system

The coronavirus pandemic and its consequences have marked the Riksbank's work with financial stability in 2020. This concerns not only risk analysis and crisis preparedness but also issues linked to the Riksbank's crisis measures. The pandemic has also marked a large part of international work and collaboration with other government agencies in Sweden, for example under the framework of the ESRB and in the Financial Stability Council. Over the year, the Riksbank also worked with analyses and publications concerning developments for Swedish banks' borrowers as well as for non-financial corporations and households. This work also involved the analysis of financing markets, which are important for banks and non-financial corporations. At the same time, work continued on influencing the formulation and introduction of both national and international financial regulations. Over the year, the Riksbank participated in a crisis exercise and cooperated with other government agencies, both in Sweden and in our neighbouring countries, to strengthen crisis preparedness.

The Riksbank's work to strengthen the financial system

The coronavirus pandemic led to GDP falling heavily, both in Sweden and in many other countries. The corporate sector was badly impacted and many people lost their jobs. In the initial stage of the pandemic, uncertainty over growth in the real economy resulted in severe fluctuations on the financial markets, and banks and companies found it more difficult to fund their operations. Thanks to measures by government agencies, an economic recovery started and the situation on many important financing markets improved. Overall, however, the Riksbank deemed that the financial stability risk was heightened.

The coronavirus pandemic has had major effects on the world economy and global financial markets

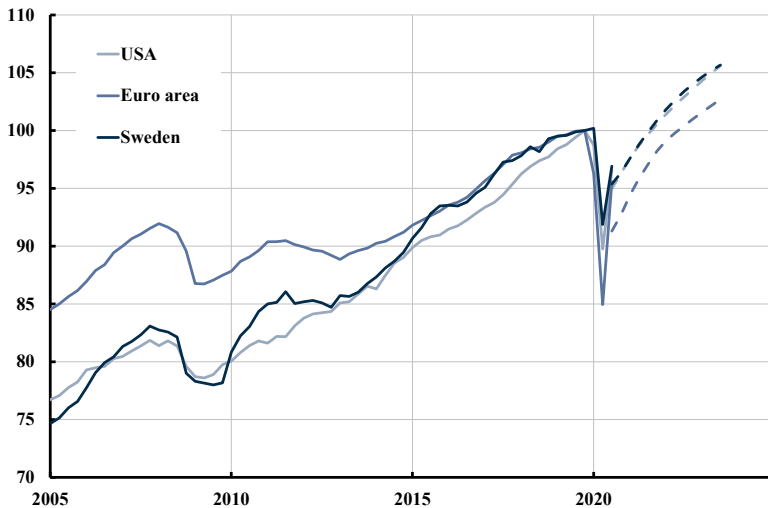
In its Financial Stability Reports, the Riksbank noted that economic developments abroad have continued to be marked by the pandemic. The restrictions introduced, requirements for social distancing and concerns over the spread of infection crippled economic activity in many countries during the spring, resulting in substantial falls in GDP. GDP fell clearly in Sweden too, but many countries were impacted even harder.

In the initial phase of the crisis, there were also major strains on financial markets, both in Sweden and abroad, with investors seeking highly liquid and relatively safer assets. Equity indices fell, market rates rose sharply and there were clear signs that some markets were functioning poorly. For example, the

difference between ask and bid prices increased on many important financing markets. To reduce the risk of a credit crunch and help improve credit supply, many central banks implemented a large number of powerful measures. For example, the Riksbank initiated purchases of financial assets, in the form of, for example, government bonds, covered bonds, corporate bonds and commercial paper. Several central banks, like the Riksbank, also started substantial lending programmes and policy rates were cut or held around 0 per cent. In addition, the Federal Reserve's swap agreements with central banks in other countries helped to mitigate problems associated with the shortage of US dollars at the beginning of the crisis. Together with fiscal policy support programmes for households and companies, these measures have played a crucial role in avoiding a financial crisis. This support has also helped make it possible for an economic recovery to start during the year.

Chart 15 GDP in Sweden, the euro area and the United States

Index, 2019 Q4 = 100



Note. The broken lines represent the Riksbank's forecasts from the Monetary Policy Report in September. The outcome for the third quarter of 2020 was received after the Financial Stability Report had been published in November. Refers to seasonally adjusted data.

Sources: Eurostat, Statistics Sweden, US Bureau of Economic Analysis and the Riksbank.

Developments are uncertain, however, and when the spread of infection increased again in the autumn, several countries were forced to adopt new restrictions or to allow the phasing-out of existing restrictions to take longer. In addition, the crisis has also hit the corporate sector globally, which may lead to an increase in corporate bankruptcies. In turn, this may lead to problems for countries with fragile banking systems.

Corporate sector heavily impacted

Over the year, many companies were hit hard by the economic consequences of the coronavirus pandemic. Companies that were directly affected by the restrictions on social life were initially impacted particularly badly. These included, for example, companies active within the hospitality and transport sectors. Many companies were also heavily impacted at the start of the pandemic when activity in the global economy slowed down, as this led to delays in deliveries of input goods and thereby to disruptions in production.

Taken together, the problems led to the number of requests for reorganisations and bankruptcies increasing over the spring. Over the summer, however, the number of requests fell back, and, over the autumn, they lay on relatively normal levels. One possible explanation for this is the support measures to companies in the form of loans and grants that the Government, Riksbank and other authorities deployed. From the Riksbank's side, the measures to assist companies have primarily concerned maintaining a good credit supply and keeping interest rate levels low.

As many companies lost a large part of their revenues due to the pandemic, they found it difficult to pay their rents. Several property companies then tried to make it easier for tenants through various solutions. How well the property companies managed over the year varied depending on the kind of stocks they have. Those with properties within the hotel and retail sectors were impacted heavily, while those with housing or social infrastructure managed better.

Shortcomings on the corporate bond market

The stress that affected the financial markets due to the coronavirus pandemic exposed problems that had existed on the corporate bond market for a longer time and that the Riksbank had previously highlighted. One such problem concerns shortcomings in transparency on the secondary market, particularly as regards the publication of information on prices and volumes in trades. Uncertainty over bond prices strengthened the effects when unease was at its height in the spring and contributed to several Swedish fund companies temporarily choosing to stop trading in some of their funds with holdings in Swedish corporate bonds. The problems also contributed to difficulties for non-financial corporations in refinancing their securities.

Another problem that the Riksbank highlighted concerns the limited liquidity on the secondary market, and this became particularly apparent during the spring. A large share of investors choose to hold onto their bonds until maturity. This means that only a small share of the total outstanding volume is traded on the secondary market. When some investors wished to sell parts of their corporate bond holdings in the spring, there were few purchasers available. Many funds in particular wished to sell as a means of managing the major capital withdrawals their unitholders were making.

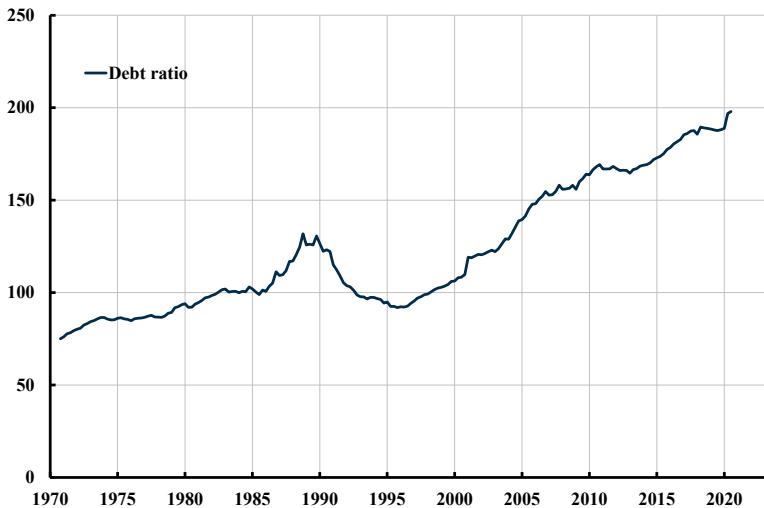
Changed economic conditions for many households

The coronavirus pandemic has led to poorer economic conditions for many households. The number of redundancy notices and short-term layoffs has risen at a rapid rate and many people have lost, or risk losing, their job and income. Despite weak developments on the labour market, households' resilience has remained good, which is partly due to the measures implemented by the Government, the Riksbank and other authorities, and partly to strong developments on the housing market.

The high and rising indebtedness of households is continuing to make the Swedish economy vulnerable and the Riksbank has been highlighting for some time that the high level of indebtedness in the household sector could become particularly problematic if economic developments were to be much worse than expected, particularly if housing prices were to fall. At the same time as indebtedness has increased, housing prices have been rising for a long time and this development has been particularly strong during the pandemic. Indebtedness among households is historically high and amounts to approximately 198 per cent of disposable household income. The sharp rise of the debt-to-income ratio in 2020 is linked to the fact that disposable income developed very weakly during the crisis.

Chart 16 Household debt

Percentage of annual disposable income



Note. Total household debt as a share of disposable household income added together over the last four quarters. The final observation refers to Q3, 2020.

Source: Statistics Sweden and the Riksbank.

The rise of household debt over a long period of time is due not only to interest rates having fallen but also to the housing market having functioned poorly and the tax system not being well designed from a financial stability perspective.

tive. Over the year, the Riksbank pointed out that measures are needed in housing and tax policies to address the underlying reasons that debts have become so high.

Development of the banking sector fraught with uncertainty

The major banks in Sweden went into the coronavirus pandemic in a relatively good position, very much due to the tightening of global and national requirements for the banks' capital and liquidity since the global financial crisis at the end of the first decade of this century. Even if the situation has deteriorated somewhat recently, most of the five major banks have had good profitability and low credit losses for a long time. Together with powerful public sector measures, these factors have provided the right conditions for the major banks in Sweden to maintain their lending during the coronavirus pandemic.

At the same time, several structural vulnerabilities and risks remain in the Swedish banking sector, as the Riksbank has previously highlighted. These risks include the size and concentration of the banking sector, as well as major exposures to the property market, where developments on the housing market are contributing to increasing the vulnerabilities further. Furthermore, Sweden is a small open economy and the banks are dependent on international developments. The European banking sector has long had problems with low profitability and large volumes of problem credits. If confidence and developments in the banking sector in Europe deteriorate, the Swedish banks may also be affected negatively.

The financial infrastructure adapted its operations

The Riksbank's oversight of the financial infrastructure shows that, overall, it worked well over the year and that availability was good, despite the financial market infrastructures (FMIs) being forced to make changes to their operations due to the coronavirus pandemic. Among other things, this meant that many employees had to work from home. The systems have also occasionally come under extra strain as market turbulence generated more transactions than normal. However, as there were few incidents and disruptions over the year, the Riksbank's assessment is that the FMIs handled the situation well. The Riksbank noted, however, that there are vulnerabilities that remain and need to be managed.

One vulnerability is linked to governance and control; the Riksbank noted that the companies have made several improvements, but that some work remains. Furthermore, the Riksbank pointed out that the FMIs' extensive outsourcing may pose a risk. Another vulnerability concerns central counterparties (CCPs) that are sensitive to large market movements, which may create risks to the financial system. The Riksbank noted that the CCPs' exposures varied greatly during the spring's turbulence on the financial markets, but that the situation became more stable towards the end of the year. The Riksbank

pointed out, however, that it is important that the market participants continue to be prepared if movements on the market increase again.

Financial Stability Council

The Riksbank is a member of the Financial Stability Council. The Council met five times in 2020, with three of the meetings being extraordinary meetings in the spring due to the coronavirus pandemic. Among other matters, the authorities discussed developments in the financial markets and effects on the macroeconomy caused by uncertainty surrounding the coronavirus pandemic. The authorities also presented their measures to dampen the effects of the crisis on lending, households and companies and to reduce unease on the financial markets.

The authorities assessed that, since the financial crisis of 2008–2009, Sweden had adopted several measures that have contributed to conditions for maintaining financial stability being better today. At the same time, they noted that there remain vulnerabilities, such as high risk taking in the financial markets, high indebtedness among households and growing indebtedness among non-financial corporations. The Riksbank noted that the pandemic could be seen as an example that illustrates how important it is that the financial system has good resilience to financial shocks. When the economic situation permits, the resilience of the financial system will need to be reinforced again.

Over the year, the Council also discussed money laundering and cybersecurity in the financial system. The Riksbank informed the Council that the Nordic-Baltic constituency agrees that the IMF should evaluate the region's cooperation to counteract money laundering and the funding of terrorism. The IMF's work will form an important complement to other current evaluations in the area.

The Riksbank's Financial Markets Survey

Twice per year, the Riksbank sends out a Financial Markets Survey to participants active in the Swedish fixed income and foreign exchange markets. The purpose of the survey is to gain an overall picture of participants' views on the functioning of the Swedish financial markets – how they work, what market activity looks like and which risks market participants consider will exist in the Swedish financial system going in the period ahead. The report is only an account of participants' responses and does not present the Riksbank's assessments.

In the spring survey, the participants' responses stated that they considered that the foreign exchange market for Swedish kronor was functioning less efficiently than previously, but better than the markets for other currencies during the coronavirus crisis. The Swedish fixed-income market was also reported to be working less smoothly than before. More participants than previously responded that liquidity on the market for corporate bonds and covered bonds

was poor or very poor. In the autumn survey, a larger proportion of participants than in the spring survey considered that both the foreign exchange market for Swedish kronor and the Swedish fixed-income market worked well or very well. The main improvement on the fixed-income market concerned liquidity on the market for commercial paper, corporate bonds with high credit ratings and covered bonds. Liquidity for nominal and real government bonds, on the other hand, was stated as somewhat poorer than in the spring survey.

The Riksbank provides a new reference rate

In December 2019, the Executive Board of the Riksbank decided that the Riksbank was to provide a transaction-based reference rate for the very shortest maturity (overnight or O/N) in Swedish kronor. The new reference rate, named SWESTR (Swedish Krona Short Term Rate), will affect many stakeholders once it comes into use. A reference rate functions as a common benchmark when pricing financial contracts, such as debt securities, but can also be used to price variable-rate loans aimed at households and companies.

In 2020, the Riksbank developed the transaction-based interest rate and the framework needed around it. Among other things, this work involved developing a suitable definition for the new reference rate and devising forms for how it is to be produced and published. On 17 November 2020, the Executive Board decided how the reference rate is to be calculated. This decision was preceded by a consultation and the decision took account of the opinions then expressed.

Over the autumn, the Riksbank also collected opinions from potential users on how the new reference rate should be presented on the Riksbank's website. This was to ensure it benefits users. Over the year, the Riksbank also participated as observer in the working group for alternative interest rates (AGAR).

On 27 January 2021, the Riksbank initiated a test period lasting for about six months. During the test period, a preliminary version of SWESTR will be published at 11.00 every banking day. The official reference rate will begin to be published after the test period has been completed.

Safe and efficient payments

The Swedish payment market is developing rapidly and the Riksbank is therefore investigating how its supply of services needs to be changed so that the payment system can continue to be safe and efficient. Safe and cost-effective payments are a precondition for the Swedish economy to function well. The Swedish payment infrastructure must be at least as safe and efficient as it is in comparable countries abroad. This development also requires a review to be conducted of the infrastructure for instant payments between households and companies. In 2020, Riksbank's negotiations over the use of the ECB's platform for instant payments (TIPS) for settlements in Swedish kronor continued and were successfully concluded. Work on the e-krona project also continued in 2020, among other things with the development of an e-krona pilot. In November, the Riksbank published the report Payments in Sweden 2,020, which describes and analyses developments in the payment market.

Developments on the payment market

Electronic payments are increasing in number as part of a global trend. Reasons for this include technological development and changed consumption patterns. It is becoming increasingly common for payments to be made between private individuals and companies in different countries, and the national payment markets are becoming increasingly integrated. For Sweden, developments in the Nordic region and EU are the most important. The central banks have a key role in the transformation of the payment markets and the Riksbank participates in the international cooperation and monitors and analyses developments.

On the Swedish market, the usage of electronic payment services has shown an increasing trend, at the same time as the usage of paper-based direct debits and cash has decreased. In an international comparison from 2019, Sweden is one of the countries with the lowest proportion of cash in society per person and year. The ever-lower level of cash usage among the Swedish population is largely due to technological developments and the increased digitalisation in society as a whole.

Fewer and fewer payments at points of sale take place in cash and consumers also report that they are experiencing more and more often that they are unable to pay with cash in shops. At the same time, usage of cards and Swish is increasing. So-called contactless smart cards and terminals, where customers pay by placing their cards against the card reader, have become common. This development accelerated during the coronavirus pandemic in 2020 and a large part of this effect is expected to be permanent.

The trend towards a cashless society could ultimately make society vulnerable if the payment market becomes concentrated among a small number of

private participants, payment services and infrastructures. This problem was also raised in the work of the parliamentary committee for the review of the monetary policy framework and the Sveriges Riksbank Act, and in the final report of the Defence Commission on the direction of security policy and the design of military defence. The Riksbank also took up the problem within the framework of its work in the Retail Payments Council, which is a forum for consultation and dialogue on matters concerning the Swedish market for payment services.

The increased demand for and volume of so-called instant payments through the banks' payment application Swish has led the Riksbank to investigate how these can be offered in more forms to the public in the period ahead as efficiently and securely as possible. The Riksbank thus reached an agreement with the ECB in 2020 on allowing payments in Swedish kronor to be made through the ECB's platform for instant payments, TIPS. By using the same technical platform as the Eurosystem, the Riksbank will not only keep costs down but also provide Swedish companies with scope to develop new payment services, which will benefit the general public. The new service is expected to be ready in the spring of 2022.

Since 2017, the Riksbank has been running a project to study whether it would be possible to issue a digital complement to cash, known as an e-krona, and whether such a complement could support the Riksbank in the task of promoting a safe and efficient payment system. Under the framework of this work, the Riksbank is also running an e-krona pilot project.

E-krona pilot

In February 2020, Accenture was commissioned as technical sub-contractor to the Riksbank's e-krona pilot project. The objective of the project is to develop a proposal for how the Riksbank could issue Swedish kronor in digital form and make them available to the general public. The project is also broaden the bank's knowledge of technical options for the e-krona, and to produce a proposed technical solution in a test environment and a proposed regulatory framework for the e-krona. This work continued in 2020; a project organisation was established and a technical solution was developed. The solution is based on Swedish kronor in digital form, issued by the Riksbank (e-kronas), being distributed via participants in a decentralised network that, in turn, mediates the e-kronas to the end-users, which is to say private individuals and companies. In addition, a comprehensive analysis was made of the regulations that would be affected by the issue of an e-krona.

Over the year, the E-krona Pilot Division also held a dialogue with external stakeholders and other central banks on various aspects of central bank digital currency.

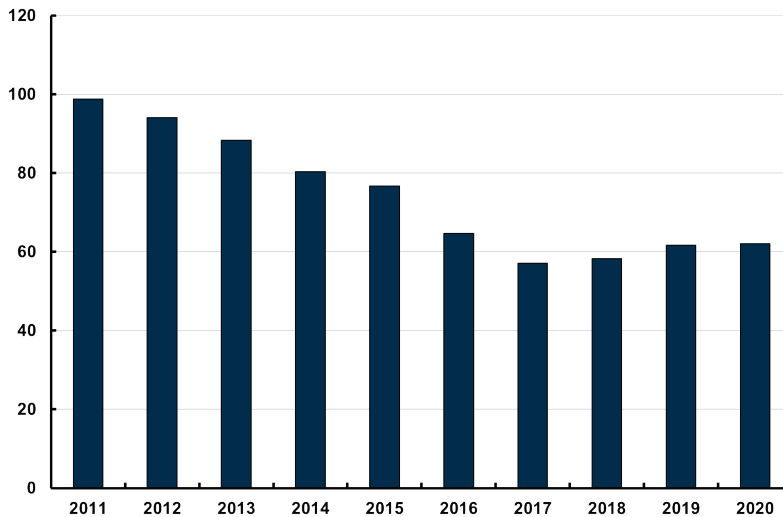
Cash provision

In 2020, the Riksbank provided banknotes and coins to the banks and followed the value of cash in circulation.

Previously, cash volumes had been falling for many years but have they increased since 2017. This increase now seems to have levelled off and, in 2020, cash volumes were at approximately the same level as in the previous year. The only increase was in 500-krona banknotes.

The value of the cash in circulation is governed by the demand for banknotes and coins, which varies over the course of a year. One way of describing the amount of cash in circulation over a year is to calculate an average for the value on the final day of every month over the twelve months of the year. This average value amounted to SEK 62 billion in 2020, of which the value of banknotes amounted to SEK 59 billion and the value of coins to SEK 3 billion (see Chart 17 and Table 8).

Chart 17 Average value of banknotes and coins in circulation, SEK billion



Note: The figures in the chart do not include the value of commemorative coins.

Source: The Riksbank.

The volume of cash amounted to SEK 63 billion at the end of 2020, of which the value of banknotes amounted to SEK 60 billion and the value of coins amounted to SEK 3 billion (see Table 8). This is only a marginal increase compared with the corresponding period of 2019.

Table 8 Value of banknotes and coins in circulation, SEK billion

	2016	2017	2018	2019	2020
Total value at 31 December	62	58	62	63	63
Banknotes	58	55	59	60	60
Coins	5	3	3	3	3
Total value, average during the year	65	57	58	62	62
Banknotes	60	53	55	59	59
Coins (excluding commemorative coins)	5	4	3	3	3

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

Source: The Riksbank.

At the start of the pandemic, cash use decreased, partly because some people were worried that infection could be spread via cash and partly because many older people had stopped visiting shops. However, the Public Health Agency of Sweden announced that the risk of being infected with COVID-19 via cash is low.

Normally, Swedish banknotes are counterfeited to a minor extent, but the relatively large increase observed in 2019 continued with greater force in 2020. The counterfeits are not particularly sophisticated but still manage to enter into circulation as people are not used to examining banknotes. The Riksbank has increased its communication initiatives around this, in social media and elsewhere. The value of counterfeit notes removed from circulation during the year amounted to SEK 3,202,610. The number of counterfeit banknotes amounted to 6,629. Just over nine out of ten of these were 500-krona banknotes.

Table 9 Number of banknotes and coins

	2016	2017	2018	2019	2020
Number of banknotes in circulation (millions)	288	265	262	266	262
Number of coins in circulation (millions)	1,823	1,433	552	624	662
Number of counterfeited banknotes	379	537	453	1,703	6,629

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

Note: The number of counterfeited banknotes for 2020 is a preliminary figure and may be adjusted slightly.

Source: The Riksbank and the Swedish Police

The RIX payment system

The Riksbank provides the payment system RIX, which handles large-value payments in Swedish kronor between banks and other actors. Payments are

made in the form of transfers between accounts held by the different participants in the RIX system. For RIX to function in a safe and efficient manner, it requires sufficient credit limits among the participants, well-functioning management of collateral and well-functioning technical systems. The Riksbank's assessment is that the RIX system has worked well in 2020. The RIX system's targets for technical availability and cost coverage over a three-year period were fulfilled. The technical availability for the year was 100 per cent and cost coverage for the years 2018–2020 was 99 per cent

Number of participants, transactions and turnover

In 2020, three new participants joined RIX. At the end of the year, the RIX system had a total of 38 participants. On average, the system handled 23,473 transactions per day in 2020. This is an increase of 3 per cent compared with the previous year. Daily turnover averaged about SEK 509 billion, which was an increase of 1.64 per cent compared with the previous year. The average transaction amounted to about SEK 21.7 million, while the corresponding figure for 2019 was SEK 24 million.

The RIX system is funded by its participants. The entry charge, a one-off charge paid by new participants, was raised on 1 March from SEK 125,000 to SEK 160,000. The charge was mainly raised because it was taking longer to handle applications and the implementation of new participants. Other fees were left unchanged.

Follow-up

The RIX system is evaluated on the basis of two operational targets: technical availability and cost coverage. The target for technical availability is defined as the time that the system functions and payments are settled. The target value for this is 99.85 per cent. The outcome for 2020 was 100 per cent. No serious disruptions affecting the availability of RIX occurred during the year.

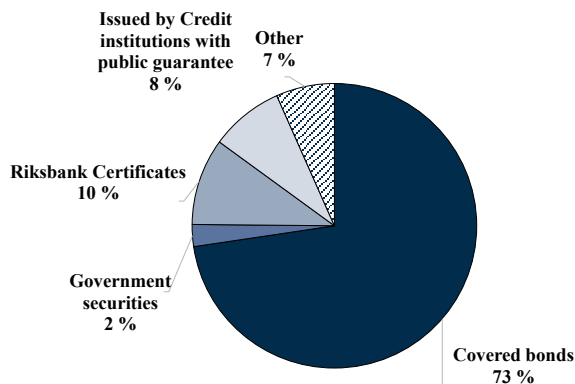
All costs relating to the provision of services in RIX are to be covered by fees paid by the participants. In 2020, these costs amounted to SEK 101.3 million, 103 per cent of which was covered by fees. Over a three-year period (2018–2020), cost coverage was 99 per cent. The requirement for full cost coverage is measured over a three-year period, in which revenues are to correspond to 100 per cent of costs ± 10 percentage points.

Management of collateral and credit limits

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

Combined, the RIX participants had credit facilities of SEK 204 billion per day on average in 2020. On average, 19.3 per cent of this credit facility was utilised. At the close of 2020, covered bonds stood for 73 per cent of the value of all collateral pledged to the Riksbank (see Chart 18).

Chart 18 Collateral value pledged for credit per 30 December 2020, per type of security



Source: The Riksbank.

Crisis management in the payment system

Ensuring that RIX can continue to fulfil its function even in the event of disruptions and operational interruptions requires efficient contingency routines and that both the Riksbank and the participants continually exercise risk management. Even though the pandemic had changed working conditions in 2020, day-to-day work and the most important activities could be conducted with very good results. In 2020, the Riksbank carried out about 30 exercises of varying scope, both independently and with the RIX participants. For example, two joint exercises were carried out with all RIX participants, in which the scenario involved a total stop in the RIX system with subsequent transition to manual routines. The objective of the exercises is to achieve a good ability to limit negative consequences, exercise cooperation with others and take the right decisions in a crisis. The Riksbank considered that the exercises worked well.

In 2020, the group for private-public cooperation in the financial sector (FSPOS) carried out a cooperation exercise. The objective for the 2020 exercise was for the participating organisations to gain a better understanding of total defence and their own and the sector's ability to operate under a heightened state of alert. The Riksbank is chairman of the FSPOS.

Influence, cooperation and support

Sveriges Riksbank is an influential actor both in Sweden and internationally. In cooperation with other central banks, Swedish authorities and international organisations, we discuss global financial issues, develop statistics and conduct research. To make it possible to reach out with both short, easily understood messages to a broader public and in-depth analyses to those with more knowledge, we are also developing new forms for communication.

Research

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

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

Research is mainly conducted in financial stability and monetary policy. Researchers who are specialised in financial stability study Swedish households and companies with the aim of understanding their economic behaviour. Among other things, they use large amounts of data that make it possible to investigate the risk of corporate bankruptcies and to see which macroprudential policy measures affect household indebtedness. The researchers who focus on monetary policy and macroeconomics analyse the manner in which monetary policy measures affect economic activity and inflation, the way the labour market functions and the interplay between monetary policy and fiscal policy. In addition, research is conducted into payments and financial markets.

The pandemic made it much more difficult than before to assess economic developments, demonstrating the need for alternative data sources to allow analyses to be made and decision guidance to be prepared on the basis of up-to-date information. Consequently, in cooperation with the business sector, the Riksbank has worked on measuring the effects of the pandemic on the Swedish economy in real time. During the initial phase of the pandemic, high-frequency data for the amount of card transactions, as well as the development of particularly vulnerable sectors such as the hotel, restaurant and travel industries, was revealed to provide particularly useful information on the state of the economy.

Researchers at the Riksbank have also written articles, primarily in the Riksbank's own publication, Sveriges Riksbank Economic Review, with the aim of spreading research findings to a wider circle and thereby promoting the discussion of policy-relevant issues. One example is the article Global warm-

ing from an economic perspective, which describes the interplay between climate change and our economies, the type of policies that may work to reduce warming and the possible consequences of climate change for a central bank's operations.

Some of the work of the Research Division is authored in collaboration with members of other departments at the Riksbank, among other reasons with the ultimate aim of producing better material for decisions. Over the year, the Research Division has contributed to the Riksbank's consultation response to the Riksbank Inquiry, among other things. This work aimed to describe the challenges inherent in the proposed changes to the management of the Riksbank's balance sheet and equity. A framework was developed for how the need for equity interacts with the size of the balance sheet and risk exposure, as well as the Riksbank's funding and financial independence, and used a quantitative model to provide examples of various conceivable future scenarios. One of the conclusions is that legislation intended to last for a longer time must be flexible enough to be able to handle different future scenarios. This is because development is highly uncertain for several key variables that affect the Riksbank's future earnings capacity and, ultimately, its financial independence.

Over the year, the Riksbank organised an online academic conference in collaboration with the Central Bank Research Association (CEBRA) and the Centre for Economic Policy Research (CEPR). At the conference, held on 1–2 October, researchers discussed issues surrounding exchange rates and monetary policy. These included how changes in the exchange rate are connected with changes in monetary policy and economic developments as a whole.

Statistics and the supply of information

In 2020, the Riksbank's work on statistics and the supply of information largely concerned supplying the Riksbank's policy departments with relevant and up-to-date statistics to support both analysis and operational monetary policy work.

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

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

The Riksbank regularly publishes a report based on interviews with 40–45 companies to gain a rapid and up-to-date view of developments for non-financial corporations. The main purpose of the Riksbank's Business Survey is to obtain in-depth information on how companies view the current economic situation, and how they intend to act on the basis of this.

During the year, the Statistics Division also published an in-depth article on how new mortgage companies have emerged on the market to contribute to increased competition and lower interest rates for household mortgages.

New and detailed data in the Riksbank's analysis

Due to digitalisation, access to data has grown exponentially in recent years. New possibilities for the collection, processing, storage and availability of data have driven the development of new statistics but have also made possible compilations based on new types of data, such as computer-assisted text analysis. Interest in and a need to analyse and draw conclusions from sources with large amounts of micro data has increased across society as a whole. When the economy is moving as quickly as it has in the course of the pandemic, backward-looking data does not provide enough support for economic policy decisions or the assessment of economic developments. Early in the pandemic, the Riksbank collected high-frequency data, known as real-time indicators, as part of a broad spectrum of indicators for various parts of the economy. Another type of more structured data that the Riksbank has often used during the pandemic is information from the micro databases on lending by Monetary Financial Institutions (MFIs) to companies and on securities issues, prepared in collaboration with Statistics Sweden. Over the year, it has been possible to use the statistics in detailed analyses of lending and rate setting by the banks and of the breakdown of lending into various corporate size categories and sectors. In addition, it has been possible to use information from statistics on the issuance of securities as support in the Riksbank's purchases of bonds and certificates.

Frequent contacts with companies for current assessments of the economy

Over the year, the Riksbank carried out many telephone interviews with the aim of gaining a swift and up-to-date indication of companies' situation over the course of the pandemic. The spring interviews focused on questions concerning the companies' immediate crisis management, primarily of their financial situations but also of employee measures in the form of short-term layoffs and redundancy notices. The summer and autumn rounds of interviews focused more on discussions of the recovery phase and of companies' plans for the return to a more normal economic situation. Towards the end of the year, the spread of infection picked up again and, in December, the Riksbank

therefore conducted further interviews with companies to stay abreast of the current situation.

International cooperation

The Riksbank's international work was greatly impacted by the coronavirus pandemic. Excluding the first months of the year, all meetings were held online. This reduced travel radically, but, at the same time, the number of meetings increased due to increased crisis management meetings alongside ordinary meetings. Overall, considerable demands were made for adaptation, including to various technological communication solutions and in the processes for preparation of the meetings. At the same time, work continued on the design of joint financial standards on the international level. As the laws that regulate Swedish banks and financial institutions are largely based on these standards, it is an important part of the Riksbank's work in various international forums to influence the design of financial standards and financial supervision.

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

Global cooperation on banks

The Basel Committee on Banking Supervision promotes global financial stability by developing standards for minimum requirements for internationally active banks. Deputy Governor Martin Flodén was the Riksbank's representative on the Committee. Over the year, Riksbank officials also participated actively in several working groups.

In 2020, the Committee conducted a strategic review of its work and structure, in light of the Basel III Accord having been completed. When the coronavirus pandemic hit, the Committee acted quickly to exchange information and coordinate the actions of various authorities. The introduction of the final parts of the Basel III Accord was delayed for one year. The Committee presented technical clarifications concerning how different countries' measures should be considered in capital requirement terms and emphasised the importance of using the flexibility existing in the regulations surrounding banks' provisions for expected losses. In addition, it communicated that the Basel III buffers are there to be used when needed in crisis situations.

Over the year, the Committee also decided on new guidance for supervisory cooperation on anti-money laundering issues and on new regulations concerning the adjustment of credit ratings. It also produced recommendations for supervision in conjunction with the transition to new reference rates. Furthermore, it presented proposed new standards for capital adequacy in the securitisation of non-performing loans (NPLs), as well as principles for the supervision of operational risks. Over the year, the Committee also worked on promoting banking supervision-related matters and on evaluating the consequences and potential undesirable effects of the Basel standards. In addition, the Committee worked on issues surrounding cyber risks, new payment instruments, crypto-assets, money laundering risks, climate risks and other matters.

Global cooperation on financial infrastructure and payments

The Riksbank participated in the Committee on Payments and Market Infrastructures (CPMI), which is a standard-setting body for payments and financial infrastructure. First Deputy Governor Cecilia Skingsley was the Riksbank's representative on the Committee. Work in the CPMI was quickly reorganised at the start of the pandemic to work actively following up how the pandemic affected payments and the financial infrastructure. At the same time, work in the Committee continued on other issues; for example, the Riksbank participated in a working group aimed at improving international cross-currency payments. Together with the Financial Stability Board (FSB) and on behalf of the G20, the working group published three reports in 2020 containing proposals for concrete improvements.

The Riksbank was also involved in initiating international cooperation with several other central banks around work on central bank digital currencies. This work led to a joint report in October.

In 2020, the Riksbank participated in several international collaborations on the oversight of foreign financial infrastructures that are relevant to Swedish financial stability and that were heavily impacted by the pandemic and its effect on financial infrastructures. Also, the Riksbank participated in the oversight of SWIFT, which is an organisation providing secure financial messaging services to central banks, banks and other parties around the world. In addition to this, the Riksbank participated in a working group in the FSB that has produced guidance for the resolution of central counterparties. The Riksbank also participated in several international working groups in multilateral bodies handling payment issues.

Bank for International Settlements

The BIS was set up in 1930 as the first international financial institution, with tasks including acting as a forum and providing banking services for central banks around the world. One illustration of the BIS's role as a forum is its hosting of the Basel Committee on Banking Supervision (BCBS) and the

Committee on Payments and Market Infrastructures (CPMI), for example. Every second month, the central bank governors of shareholder countries also hold meetings in various constellations. As support for this collaboration, the BIS has a qualified staff of economists who conduct research into central bank issues and other matters.

At present, 63 central banks are shareholders in the BIS. The Riksbank has been involved since the start and is the seventh largest shareholder. Except for a few short periods in the 1930s, the Governor of the Riksbank has always been a member of the Board of Directors of the BIS. At the end of the financial year 2019/20, the balance sheet total of the BIS amounted to SDR 308 billion, equivalent to about SEK 3,800 billion. Stefan Ingves is chairman of the BIS risk committee. This committee, which is appointed by the Board of Directors, has the task of overseeing the bank's financial situation and financial risks. Normally, the Riksbank receives a dividend payment of about SEK 50 million per year. However, due to the extraordinary economic situation caused by the pandemic, the BIS Annual General Meeting decided not to pay any dividends in 2020.

Riksbank to host BIS Innovation Hub Nordic Centre

In June, it was announced that the BIS wishes to establish a BIS Innovation Hub Nordic Centre in Stockholm, in collaboration with the central banks of Denmark, Iceland, Norway and Sweden. The Nordic centre will function as a hub for a network of experts within innovation and for research into important trends within financial technology significant to central banks. The centre also wishes to promote international cooperation with the aim of improving the functioning of the global financial system. To make it possible for the Riksbank to stand as host central bank and partly finance the centre in Stockholm, the Riksdag amended the Sveriges Riksbank Act over the year. During the autumn, the Riksbank worked on various parts of the establishment process.

The International Monetary Fund focused on crisis loans and adjustments of its toolbox

The Riksbank's work with the IMF includes developing Sweden's position together with the Ministry of Finance ahead of discussions in and decisions by the IMF's Executive Board. In January 2020, Finland took over responsibility from Sweden for representing the Nordic-Baltic constituency at the IMF for a period of three years. In 2020, work at the IMF was permeated by crisis management and both the spring and annual meetings, which are normally held in Washington, D.C., were held online.

The coronavirus crisis has led to high demand for the IMF's resources and over 100 countries applied for crisis funding and/or debt write-offs over the year. In total, over 2020, the IMF's Board of Directors approved crisis loans of just over USD 102.4 billion and debt write-offs in an amount of just over USD 488.7 million. Over the year, the IMF's working methods and toolbox

were adjusted in different ways to meet the needs arising from the current crisis. In April, a new instrument was approved, the short-term liquidity line, which can be used to offer liquidity lines to countries with strong economic fundamentals that, despite this, encounter balance of payment problems. Early in the crisis, the IMF's Executive Board also approved a number of adjustments to existing tools, including an increase of the maximum amount for loans to low-income countries. To safeguard the funding of these initiatives, the IMF requested loans from economically strong countries during the spring. In June, therefore, the Riksdag approved a contribution by the Riksbank to the IMF's Poverty Reduction and Growth Trust (PRGT). The possibility of supplying global liquidity via the IMF's Special Drawing Rights (SDR) was also discussed over the year at the IMF and, in the autumn, the Riksbank published an Economic Commentary on the Riksbank's experiences of the voluntary trading arrangement, which concerns the exchange of SDR for EUR and USD.

The Riksbank contributes towards the IMF's funding through member capital, known as quotas (all member states contribute), and through voluntary arrangements to borrow, to which about forty countries contribute. A possible increase of the quotas has been discussed for some time but, in January, the fifteenth quota review was concluded without the quotas being raised. At the same time, the member states of the IMF, including the Nordic-Baltic constituency, agreed to maintain the present level of resources. In October, the Riksdag approved the extension by Sweden, via the Riksbank, of its loan agreements with the IMF.

During the autumn, the Nordic and Baltic countries decided to ask the IMF to analyse the region's work against money laundering and associated risks. The final report will consist of a financial flow analysis and an evaluation of the region's cooperation in the area of money laundering. The project will be initiated in January 2021 and is expected to be completed in mid-2022.

European cooperation

In 2020, the Riksbank participated in the Economic and Financial Committee (EFC), which prepares meetings of the Economic and Financial Affairs Council (ECOFIN). Per Jansson represented the Riksbank in the Committee. The Committee discussed, among other issues, financial stability aspects of the pandemic and the shutdowns that were taking place. In addition, it examined matters of joint interest within the framework of the IMF, the Council's action plan for managing the banks' non-performing loans (NPLs) and counteracting money laundering and the financing of terrorism, and the Commission's initiatives concerning the capital markets union and digital financial services. Among other things, the Riksbank worked for more effective measures to address non-performing loans.

Over the year, the Riksbank took part in working groups of the ESCB. These discussed matters of cybersecurity in the financial infrastructure and the work of a joint European framework to make it possible to test the resilience

to cyber risks of participants in the financial system in a standardised way. Another focus area concerned preparations for the implementation of parts of the Revised Payment Services Directive (PSD2), including those entailing strengthened security requirements for payments. The Riksbank also participated in the analysis of digitalisation of the payment market. This analysis included issues of innovation and possible global currencies, such as Libra, the digital currency that Facebook plans to set up. The Riksbank also participated in the dialogue being held in the ESCB on the design of services for payments that can instantly be credited to the recipient's account.

A new committee was formed at the start of 2020, the ESMA CCP Supervisory Committee, a committee whose aim is to improve security and efficiency among central counterparties in the EU and third countries. The Riksbank is an observer in the Committee and participated in the work of approving UK central counterparties' continued activities in the EU despite Brexit.

European cooperation on macroprudential policy

The European Systemic Risk Board (ESRB) identifies, analyses and mitigates financial systemic risks in the EU. Since the start of 2020, Stefan Ingves has been First Vice-Chair of the ESRB. In this capacity, Stefan Ingves participates in the ESRB's Steering Committee and General Board, and represents the ESRB in other contexts, such as at presentations at the EU Economic and Financial Committee (EFC). Cecilia Skingsley represents the Riksbank on the ESRB General Board and Advisory Technical Committee. The Riksbank also actively participates in several working groups and expert groups.

In the spring of 2020, as a response to the pandemic, the ESRB reorganised to a crisis organisation, in which Stefan Ingves, as First Vice-Chair, played an active role. This also required increased commitment from the Riksbank as a whole. During the second quarter, the work programme focused on five areas in which the General Board found that macroprudential policy measures to alleviate the effects of the pandemic were particularly important. The Riksbank participated in this work, which resulted in a number of reports and policy measures, including four ESRB recommendations: on monitoring financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic; on liquidity risks in investment funds; on restriction of distributions; and on liquidity risks arising from margin calls. Alongside the crisis-related measures, the ESRB also issued a recommendation aimed at broader use of the legal entity identifier (LEI), which is a global identification code used by companies and other organisations in the EU that are involved in financial transactions. Among other things, the Riksbank also contributed to the design of the macroeconomic scenarios that form the basis of the stress tests of European banks and insurance companies, and of the analysis of macroprudential policy issues concerning central counterparties and the clearing of securities transactions in the EU.

Nordic-Baltic cooperation

Three meetings of the Nordic-Baltic Macroprudential Forum (NBMF) were held in 2020. This is a forum for cooperation between central banks and financial supervisory authorities. The forum focuses on financial stability risks and cross-border banking operations in the region. At the year's meeting, the focus lay on discussing the measures that central banks and supervisory authorities in the region have adopted to mitigate the disruption to the economy caused by the pandemic. Other issues discussed included how authorities can mutually recognise each others' macroprudential policy measures.

The Riksbank also continued its work in the Nordic-Baltic Stability Group (NBSG), a forum for ministries of finance, central banks and financial supervisory and resolution authorities in the Nordic and Baltic countries. The stability group has the task of strengthening preparedness and managing cross-border financial stability issues in the Nordic-Baltic region. In 2020, work focused on the follow-up of the Nordic-Baltic crisis exercise that was carried out in January 2019, with about 300 participants from 31 public authorities in the eight Nordic and Baltic countries, as well as from relevant authorities in other European countries. During the year, a working group surveyed the need to ensure effective communication in crises and possible communication tools that could facilitate the exchange of information in crisis situations. Estonia was Chairman of the NBSG in 2020.

The Riksbank's technical assistance

The Riksbank cooperates with central banks in emerging market economies to share knowledge in the field of important central bank-related subjects. This type of expert aid is usually called technical assistance. Four initiatives were carried out at the start of the year with the central banks of Ukraine and Rwanda, as well as with the Palestine Monetary Authority, before travel restrictions due to the pandemic forced the Riksbank to cancel all planned activities. Several assignments could, however, be continued online. In 2020, the Riksbank's experts participated in about fifteen online workshops and seminars, as well as a large number of bilateral video meetings, under the framework of technical assistance work. The activities were financed by funds from the Swedish International Development Cooperation Agency, Sida.

Communication

The current pandemic and the severe economic slowdown characterised the Riksbank's monetary policy communication over the year. The focus for communication lay on explaining how the Riksbank's monetary policy measures – in the form of asset purchases, the supply of liquidity and the zero interest rate – support economic activity and help inflation rise towards the target. The

Riksbank also highlighted the reasons behind the Riksbank's project of developing a central bank digital currency, known as the e-krona, including the decreased use of cash.

Over the year, the Riksbank also continued to publish the Bank's analyses in various forms. 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 Riksbank also publishes press releases, speeches and articles, as well as minutes from the meetings of the Executive Board and the General Council on its website. Over the year, the Riksbank developed its websites and mobile applications in accordance with the new legislation that says that all public digital services must be accessible. This means that everyone must have the right to access the Riksbank's information based on their own situation and abilities, thereby participating in society on equal terms.

Communication in new forms is one of the five priorities of the Riksbank's strategic plan. The strategy focuses on developing meetings and communication with the general public, particularly in dialogue with young adults. One part of the strategy is for the Riksbank to communicate in a digital format to a greater extent, an initiative that it became necessary to intensify over the year. The coronavirus pandemic made new approaches necessary, in everything from press conferences to external appearances. In 2020, our communication initiatives targeting the general public switched format, from physical meetings to online forums. The physical lectures for upper-secondary schools that normally take place in the Riksbank's premises became online lectures over the autumn. The Riksbank also gave journalists the opportunity to ask questions in video calls after some of the Executive Board members' online addresses. The Riksbank also continued its collaboration with Nobel Calling to increase knowledge of the Sveriges Riksbank Prize in Economic Sciences.

The focus on the online form also meant more intensive work with the online format, with filmed addresses and short films explaining what the Riksbank does and what the Riksbank's analysis and standpoint is in various current issues. This contributed to increased interest in the Riksbank's official accounts in social media, such as LinkedIn, Twitter and Facebook.

Confidence among the Riksbank's target groups

To monitor how confidence in the Riksbank is developing among various target groups and the general public, the Riksbank uses regular external surveys. Every year, Kantar Sifo measures the reputations of Swedish authorities. Medieakademin's confidence barometer, together with the SOM Institute, measures and compares confidence in a number of different institutions and organisations in Sweden.

At the start of 2020, surveys by Medieakademin showed that the general public's already high level of confidence in the Riksbank had increased further, compared with the corresponding survey last year. Surveys conducted during the coronavirus pandemic also indicated increased confidence. Kantar

Sifo's recurring confidence question to an internet panel, representative of the general public, showed a strong increase in confidence over the first months of the pandemic. The average percentage of respondents who replied that they had very or fairly high confidence in the Riksbank's way of conducting its work increased from 47 per cent in 2019 to 55 per cent in 2020. Kantar Sifo's Reputation Index, conducted in May, showed the highest reputation measurement for the Riksbank since measurements started in 2013.

Media reporting on the Riksbank increased slightly in scope in 2020, compared with the previous year. Media impact for the message in the Monetary Policy Reports and Financial Stability Reports reached the target level over the year.

Corporate services and IT

Over the year, the work of moving the operation of the Riksbank's IT systems to a new supplier was concluded. In 2012, the Riksbank outsourced all of its IT operations to an external supplier. At the end of 2018, a new procurement of IT operations was concluded and another IT company was awarded the new contract. Among other things, in the new contract, the Riksbank places higher demands on security than previously, in line with the new Protective Security Act. In other respects too, the Riksbank continued to focus on protective security issues in 2020, including the management of classified information.

A couple of innovations within corporate services were implemented over the year, for example new IT solutions to streamline teleworking.

The internal customer survey for 2020 showed that the Riksbank's employees continue to be satisfied with support in areas such as office services, property services, cleaning services and document registration. When it comes to IT support, employees are not as satisfied as previously, which is because teleworking during the pandemic has placed higher demands on IT support at the same time as the transition to a new IT supplier has meant that members of staff have not been able to get assistance as quickly as previously.

During the year, the Riksbank adopted a new purchasing policy that clarifies the principles that are to apply so that the Riksbank can attain the best possible benefit for the money and resources it uses, and simultaneously support sustainable and equitable development.

Commitment, risks and responsibility

Sveriges Riksbank looks after its employees' well-being at work and regularly evaluates its leadership and working forms. The Riksbank also attaches great importance to identifying and minimising risks in its operations, working with contingency planning in various forms and developing its work on sustainability and the environment.

Workplace and employees

At the end of 2020, the Riksbank had a total of 403 employees (373 full-time equivalents), compared with 377 employees (349 full-time equivalents) at the end of 2019. The average age is 47 years and the proportion of women and men is 47 and 53 per cent, respectively. Among managers, the proportion of women and men is 48 and 52 per cent, respectively. The Riksbank takes care to be an attractive workplace characterised by good leadership in a working environment that promotes employee development, motivation, job satisfaction and efficiency.

The year 2020 brought major changes in society and our working lives, and the Riksbank was no exception. The pandemic resulted in the Riksbank's managers and employees being faced with major changes and challenges. The challenges included teleworking, changes to both physical and psychosocial working environments, long-distance leadership and a greater need for digitalisation and internal communication.

Digitalisation has been accelerated and, over the year, the Riksbank undertook a great deal of work to create solutions for communication and online meeting places that could get teleworking to function well. Various measures to facilitate working from home were adopted. Equipment was offered for home offices and efforts were made to increase our employees' understanding of ergonomics and the psychosocial work environment. For the Riksbank's managers, leading from a distance has involved training in and focusing on good leadership, guidance under new circumstances and a coaching approach. These areas were also previously in focus at the Riksbank but increased in significance over the year. Regular check-ups have allowed the Riksbank to monitor employee experiences of the situation when so many of them are mostly working from home. Responses were used to strengthen and improve both the physical and psychosocial work environments for the Riksbank's members of staff.

In addition to these check-ups, an employee survey (with an 87 per cent response rate for 2020) was conducted to monitor the development of our priority areas: strategic skills supply, an inclusive working environment, and efficient working forms. The Riksbank continued to achieve high results in the

areas innovative and inclusive working environment, and efficient and sustainable ways of working. The area strategic skills supply also continued to show high results, albeit slightly lower than in 2019. Competence analysis, a working method introduced in 2019 to investigate the Bank's needs in terms of skills, is included as a part of operational planning to safeguard strategic skills supply.

In the autumn of 2020, what is known as a 360-degree feedback process was implemented with the aim of developing individual leadership and obtaining a result on the Riksbank level indicating overall leadership capacity. The first 360-degree process was carried out in 2018 and a comparison between 2018 and 2020 showed that estimates of leadership for Riksbank managers had improved in total from 4.05 to 4.24 (on a 5-grade scale).

Internal control

The Executive Board is ultimately responsible for internal control and establishes overall policies and certain rules that govern the Riksbank's activities. However, the Internal Audit Department also examines selected areas of the operations.

The assessment model for internal control consists of five components with 20 underlying factors that describe what needs to be in place to achieve good internal control. The five components are governance and control environment, risk analysis, control mechanisms, information and communication, and follow-up and evaluation. The factors are evaluated annually on the basis of construction, documentation and implementation. In the evaluation of the factors for 2020, a smaller number of factors were deemed inadequate. Action plans are now in place for these.

Pursuant to the provisions of the Sveriges Riksbank Act, the Executive Board presents its assessment of the adequacy of internal control in the Annual Report. See also page 120.

Managing risks

Risk management shall ensure that activities are conducted in accordance with the requirements for internal governance and control in the Sveriges Riksbank Act: efficiently and in accordance with applicable laws, that they are reported in a reliable and fair manner and that the Riksbank is economical with public finances.

Operational risks

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes or routines, human error, defective systems or external events.

Management of operational risks involves identifying, valuing, handling and reporting risks. The division of responsibility in the management of operational risks shall follow the principle of three lines of defence described in the Policy for internal governance and control. Put simply, the division of responsibility means that the Risk Division, which is the second line of defence, defines the frameworks and methods for risk management, while operations in the first line of defence own the risks and are responsible for regularly ensuring that these are managed appropriately.

The Riksbank's measures to strengthen the Swedish economy and maintain the Riksbank's operations during the pandemic have increased the operational risks. Work over the year has therefore focused on ensuring that the Riksbank works continually to limit the risks.

As teleworking has become more common during the pandemic, information security is one of the areas that has required extra attention. Thanks to regularly repeated information initiatives and high risk awareness, management of this has worked well.

Ahead of the Riksbank's purchases of corporate bonds, further routine descriptions were established to ensure that the purchases were conducted in a structured and uniform manner. Furthermore, more comprehensive routines were set up to regulate staff management of insider information.

In parallel with the management of the risks caused by the pandemic, in 2020, the Riksbank has also focused on the changeover of operations supplier in IT administration.

The Riksbank has also developed and improved its work with data protection over the year, an initiative that will also continue next year.

Financial risks

The Riksbank's financial risk and investment policy is determined by the Executive Board every year and sets the outer frameworks for dealing with the financial risks arising in the management of the Riksbank's assets and liabilities.

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

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

To strengthen the Swedish economy, over the year, the Riksbank has decided on easing of the collateral requirements in RIX, liquidity support in SEK and USD, loans to banks for onward lending to companies, initial purchases of new types of security such as mortgage, municipal and corporate bonds and

commercial paper, and other measures. As these measures were implemented, focus needed to be tightened on risk management.

Before the coronavirus crisis, the Riksbank's assets mostly consisted of government securities with top credit ratings. Since then, other assets have also been purchased to support the economy and the Riksbank has therefore needed to take account of credit risks in a different way than before. The new assets mostly consist of covered bonds issued by housing credit institutions and, to an extent, municipal bonds with good credit ratings, but purchases of commercial paper and bonds issued by companies are increasing the credit risk in the portfolio. However, the increase is marginal, as these securities only make up a small part of the assets. As before, currency and interest rate risk dominate the overall financial risk outlook.

Both the new asset types and the size of the balance sheet have entailed an increase in financial risks, in terms of nominal figures. Furthermore, the stress tests that the Risk Division conducted show that the buffers that exist to cover future potential losses from asset management decreased slightly over the year. However, the Riksbank's resilience to unforeseen losses is considered to remain good.

Preparedness

Strengthened preparedness is one of the Riksbank's five strategic priority areas. At the Riksbank, the concept of preparedness covers both crisis preparedness, which in turn covers incident, business continuity and emergency management, and total defence, which consists of civil defence and military defence. The Riksbank's crisis preparedness, together with efficient protective security, forms the basis for the Riksbank's ability to manage a situation with a heightened state of alert and, ultimately, war.

Crisis preparedness and civil defence

In 2020, the Riksbank continued the work of strengthening the internal conditions to ensure that there is functionality and continuity for vital societal functions both for peacetime crises (crisis preparedness) and in a situation with a heightened state of alert and, ultimately, war (civil defence). The coronavirus pandemic has brought new knowledge of how our operations can strengthen their business continuity planning and it has also been possible to learn valuable lessons from the review of the Riksbank's crisis management organisation that was carried out over the year.

Due to the pandemic, the Riksbank also activated the Cash Handling Advisory Board and the forum for Crisis Cooperation in the Central Payment System. The forums held regular collaborative planning conferences with the focus on developing status reports and coordinating the needs for specific measures and communication.

The Riksbank also started preparing to manage possible extended responsibility for ensuring that the general public can make essential payments in crisis situations and in a heightened state of alert, as included in the Riksbank Committee's proposed new Sveriges Riksbank Act.

The Riksbank is part of Sweden's total defence and thus participates actively in planning for civil defence. Internally, work is under way on analysing how the Riksbank's critical operations can be run under a heightened state of alert, using the conditions described by the Swedish Civil Contingencies Agency (MSB) and Swedish Armed Forces in their planning for civil defence as a basis.

The Riksbank also continued the work of voluntarily coordinating total defence planning within financial services, which is one of MSB's seven areas of priority,

In parallel to this, preparations were under way for the major Total Defence Exercise 2020, which has partly been postponed due to the pandemic.

Information security

Information security and resilience to cyber attacks is an important priority risk area for the Riksbank. An information security management system based on the international standard ISO/IEC 27000 was introduced in 2020 and will be an important part of the continuous improvement work going forward. The Riksbank's internal work takes place within the committee for cybersecurity, where overall activities to strengthen the Riksbank's protection against cyber risks are carried out and coordinated. The Riksbank also participates in external collaboration and knowledge exchange forums, both nationally and internationally, which confirms the correct threat scenario and contributes to more effective measures.

Environment and sustainability

Sustainable development involves developments in society that meet today's needs without compromising the possibilities of future generations to meet their needs, taking into account economic, ecological and social aspects. The Riksbank's environmental work and work on sustainable development were enhanced over the year and sustainability aspects are now part of all policy areas. In December, the Executive Board decided on a sustainability strategy that describes how sustainability affects work on financial stability, monetary policy, asset management and in the area of payments. The insight that climate risks are a source of financial risks means that the Riksbank, in its work on financial stability, needs to analyse how Swedish banks and financial infrastructure systems are exposed to climate-related risks. Within monetary policy, consideration needs to be taken of how climate change affects economic development (see the chapter Maintaining the value of money – price stability). The Riksbank also considers sustainability when implementing monetary

policy, such as in purchases of corporate bonds. As of a few years ago, asset management has included sustainability as a criterion in investment policy (see the chapter on asset management).

Since December 2018, the Riksbank has been member of an international network of central banks and supervisory authorities for analysing sustainability-related issues in the financial system – The Network for Greening the Financial System. In this network, the Riksbank participates in the task of working out possible future scenarios for stress tests of financial institutions and also in analyses of how sustainability can be considered in the implementation of monetary policy.

Over the year, the Riksbank also participated in other international cooperation aimed at strengthening the financial system's ability to manage climate-related risks. One example of this, among others, is the Riksbank's participation in the Basel Committee's Task Force on Climate-related Financial Risks that was established in February 2020. This work aims to strengthen the resilience of the banking system. In the first phase, an inventory of the members' present regulatory and supervisory initiatives concerning climate-related risks was conducted. All respondents, including the Riksbank, noted that climate change may lead to financial risks that could have implications for the financial stability of the banking system.

Under the framework of the EU, the Riksbank participates in working groups that analyse climate-related risks as a source of financial risks, develop methods to quantify climate-related risks (for example, scenario analyses and stress tests) and develop tools to counteract such risks on the European level. Examples of tools include requiring regular reports on climate-related risks from banks and other participants in the financial system. Among other things, the Riksbank participates in the working group on climate risks of the European Systemic Risk Board (ESRB) and as observer in the Sustainable Finance Network of the European Banking Authority (EBA).

The Riksbank also collaborates with other Swedish authorities, among other things to develop suitable methods to assess the macroeconomic consequences of climate change.

The Riksbank's environmental work is an integral part of operations and is part of every manager's responsibility. All employees of the Riksbank play an important role in environmental work. The Riksbank's environmental policy was revised over the year to obtain a better structure and become more detailed. The measures used by the Riksbank in its environmental work and their outcomes are presented in Table 10.

Table 10 Measures used to monitor environmentally sustainable development

	2018	2019	2020
Carbon dioxide emissions from official travel (tonnes), total per employee	1.61	1.31	0.23
Energy usage, total (MWh)	5,975	5,580	5,408
Energy usage, total per employee (MWh per square metre)	18.6 (0.23)	16.7 (0.21)	15.0 (0.21)

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

Source: The Riksbank.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Accounting principles

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, last updated by the Executive Board on 7 October 2020 (Ref. no. 2020-0691), which came into force on the same date. The update to the rules done in 2020 concerned only a few clarifications that did not cause any change to the Riksbank's accounting.

The rules for current recording of transactions refer to the Bookkeeping Ordinance (2000:606) and the rules for annual accounts refer to the Guideline of the European Central Bank on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks, (EU) 2016/2249 (ECB/2016/34) amended according to (EU) 2019/2217 (ECB/2019/34). Under Chapter 10, Article 3 of the Sveriges Riksbank Act the Riksbank must apply the accounting guideline of the European System of Central Banks (ESCB) where relevant.

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

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

- In the presentation format for the balance sheet, the terms "euro" and "euro area" have been replaced with "Swedish kronor" and "Sweden", because Sweden has not introduced the euro as a means of payment.
- The depreciation period for buildings is 50 years instead of 25 years, because 50 years is considered to better reflect the actual lifetime of the Riksbank's buildings. There are also slight deviations for other fixed assets.
- The Riksbank's threshold for capitalising fixed assets is half a price base amount instead of EUR 10 000, justified by the fact that a lower capitalisation limit is considered to give greater control of the Riksbank's fixed assets.
- Discounts on discount securities with maturities of over a year at the time of acquisition are amortised on a straight-line basis instead of according to

the internal rate of return method. The deviation is justified by the consideration that it provides more transparent reporting of the amortisations, and also means that amortisations for all securities are reported in the same way.

The deviations from the ESCB accounting guidelines are set out in the Rules for Bookkeeping and Annual Accounts at Sveriges Riksbank.

The cash flow statement is presented as part of the Annual Report, which is not a requirement under the ESCB's accounting guideline. The statement has been prepared guided by the international accounting standard IAS 7. The deviation is justified by the fact that the cash flow statement provides valuable information regarding primarily the result and change in cash and cash equivalents.

Changes in accounting policies

No changes in accounting policies were made in 2020.

Fundamental accounting policies

The following fundamental accounting policies have been applied:

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

Recognition of assets and liabilities

Assets and liabilities are only reported in the balance sheet if it is probable that any future financial results connected to the asset or liability will comprise a

flow to or from the Riksbank and if in principle all risks and rights related to the asset or liability have been transferred to or from the Riksbank.

Trade-date accounting

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

Provision for financial risks

A provision for market, liquidity and credit risk may be made on the basis of a justified estimation of the risk exposure.

Balance sheet valuation rules

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

Exchange rates

	31/12/2020	31/12/2019
EUR/SEK	10.0409	10.5049
USD/SEK	8.2091	9.3694
GBP/SEK	11.2165	12.3994
AUD/SEK	6.3274	6.5704
CAD/SEK	6.4371	7.2669
SDR/SEK	11.8242	12.9686
NOK/SEK	0.9570	1.0657
JPY/SEK	0.0796	0.0862
DKK/SEK	1.3494	1.4040

Source: Bloomberg.

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

Shares and participations are recorded at cost of acquisition.

Tangible and intangible assets are recorded at cost of acquisition and depreciated according to plan. Buildings are depreciated over a period of 50 years, other fixed assets over 5–25 years. Machinery and equipment, including computers, is depreciated over 3–7 years. Land and art are not depreciated. For IT systems developed in-house at the Riksbank, payroll expenses for certain IT staff 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 continue to be reported in the balance sheet and are recorded in accordance with the applicable rules for the Riksbank's other holdings of securities and gold. An amount equivalent to the purchase sum received is reported as a liability, while the transferred assets are reported as memorandum items.

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

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

Banknotes and coins

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

Recognition of income

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

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

Unrealised losses are recognised in the profit and loss account if they exceed unrealised gains that may have been previously posted in the corresponding revaluation account. Unrealised losses recognised in profit and loss may not be reversed in later years to offset new unrealised gains. Unrealised losses

in a particular security, a particular currency or gold are not netted against unrealised gains in other securities, 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.

The value adjustments concerning the IMF's holdings in Swedish kronor are offset against the exchange-rate revaluations that are attributable to the Riksbank's quota in the IMF. The account balance in Swedish kronor has been hedged by the IMF against SDR, which causes exchange-rate conversion. This principle means that the balance of the krona account is measured as if it were in SDR instead of Swedish kronor.

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 currencies 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 an asset and groups with a negative value as a liability.

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

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

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

Assets		31/12/2020	31/12/2019
Gold	Note 1	62,897	57,488
Claims on residents outside Sweden denominated in foreign currency			
Receivables from the IMF	Note 2	43,102	40,150
Balances with banks, loans and security investments	Note 3	373,084	420,460
		416,186	460,610
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor			
Structural operations	Note 4	167,500	–
Marginal lending facility	Note 5	–	–
		167,500	–
Securities of residents in Sweden denominated in Swedish kronor			
	Note 6	640,836	375,534
Other assets			
Tangible and intangible fixed assets	Note 7	596	633
Financial assets	Note 8	552	532
Derivative instruments	Note 9	–	42
Prepaid expenses and accrued income	Note 10	5,271	4,968
Other assets	Note 11	148	158
		6,567	6,333
Total assets		1,293,986	899,965

Liabilities and equity		31/12/2020	31/12/2019
Banknotes and coins in circulation			
Banknotes	Note 12	59,717	60,383
Coins	Note 13	3,136	3,105
		62,853	63,488
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor			
Deposit facility	Note 14	494,574	117,666
Fine-tuning operations	Note 15	–	–
		494,574	117,666
Other liabilities to credit institutions in Sweden denominated in Swedish kronor			
	Note 16	194	184
Debt certificates issued			
	Note 17	380,002	314,944
Liabilities to other residents in Sweden denominated in Swedish kronor			
	Note 18	349	303
Liabilities to residents outside Sweden denominated in Swedish kronor			
	Note 19	1,648	3,740
Liabilities to residents in Sweden denominated in foreign currency			
	Note 20	173,791	192,934
Liabilities to residents outside Sweden denominated in foreign currency			
	Note 21	–	10,575
Counterpart of Special Drawing Rights allocated by the IMF			
	Note 22	26,592	29,166
Other liabilities			
Derivative instruments	Note 23	–	–
Accrued expenses and prepaid income	Note 24	1,138	1,488
Other liabilities	Note 25	47	37
		1,185	1,525
Provisions			
	Note 26	5,449	460
Revaluation accounts			
	Note 27	74,061	82,119

The table continues on the next page.

Liabilities and equity		31/12/2020	31/12/2019
Equity			
Capital	Note 28	1,000	1,000
Reserves	Note 29	76,561	56,210
		77,561	57,210
Result for the year		-4,273	25,651
Total liabilities and equity		1,293,986	899,965

Memorandum items, see Note 41

Profit and loss account

SEK million

		2020	2019
Interest income	Note 30	6,478	11,369
Interest expense	Note 31	-2,840	-4,455
Net result of financial transactions, write-downs and risk provisions	Note 32	-7,042	19,522
Fees and commissions income	Note 33	104	98
Fees and commissions expenses	Note 34	-19	-18
Dividends received	Note 35	-	55
Other income	Note 36	48	56
Total net income		-3,271	26,627
Staff costs	Note 37	-497	-442
Administrative expenses	Note 38	-431	-431
Depreciation of tangible and intangible fixed assets	Note 39	-71	-78
Banknote and coin expenses	Note 40	-3	-25
Total expenses		-1,002	-976
Result for the year		-4,273	25,651

Cash flow statement

<i>SEK million</i>	31/12/2020	31/12/2019
OPERATING ACTIVITIES		
<i>Cash flow from operating activities, profit and loss</i>		
Interest received	6,049	13,008
Interest paid	-3,148	-4,543
Net received from financial transactions	15,417	19,685
Fees and commissions received	104	98
Fees and commissions paid	-19	-18
Other income	48	52
Administrative expenses paid	-943	-890
	17,508	27,392
<i>Cash flow from operating activities, assets</i>		
Receivables from the IMF	-10,909	-993
Securities denominated in foreign currency	58,428	45,747
Structural operations	-167,500	-
Securities denominated in Swedish kronor	-275,248	11,702
Other assets	134	154
	-395,095	56,610
<i>Cash flow from operating activities, liabilities</i>		
Banknotes and coins in circulation	-635	1,311
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	376,908	13,145
Debt certificates issued	65,058	-37,259
Liabilities to residents outside Sweden denominated in Swedish kronor	-2,092	3,628
Liabilities to residents in Sweden denominated in foreign currency	578	-76,272
Liabilities to residents outside Sweden denominated in foreign currency	-10,575	8,014
Other liabilities	7,536	1,171
	436,778	-86,262

The table continues on the next page

	31/12/2020	31/12/2019
Cash flow from operating activities	59,191	-2,260
INVESTING ACTIVITIES		
Acquisition and disposal of tangible and intangible fixed assets	-35	-58
Acquisition and disposal of financial assets	-20	-10
Dividends received	-	55
Cash flow from investing activities	-55	-13
FINANCING ACTIVITIES		
Transfer to the Treasury	-5,300	-3,800
Cash flow from financing activities	-5,300	-3,800
Cash flow for the period	53,836	-6,073
Cash and cash equivalents at beginning of period	42,151	45,851
Cash flow from operating activities	59,191	-2,260
Cash flow from investing activities	-55	-13
Cash flow from financing activities	-5,300	-3,800
Exchange rate difference on cash and cash equivalents	-8,314	2,373
Cash and cash equivalents at end of period	87,673	42,151
Specification of cash and cash equivalents		
	31/12/2020	31/12/2019
Bank accounts, bank lending and reverse repurchase agreements denominated in foreign currency, see Note 3	87,673	42,151
Marginal lending facility	-	-
Total cash and cash equivalents	87,673	42,151

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 statement is divided into payments from operating activities, investing activities and financing activities.

Theoretically, the Riksbank can create an unlimited volume of liquidity in the national currency. In practice, the Riksbank's capacity for creating liquidity in the national currency is limited by the volume of assets accepted by the Riksbank as collateral in its lending, and the volume of assets that the Riksbank can purchase or invest in.

Operating activities

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

Investing activities

Investing activities consist of the purchase and sale of tangible and intangible fixed assets, as well as those shares and participations that are reported under the item 'Financial assets'. Dividends paid 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 2019.

Note 1 Gold

	31/12/2020	31/12/2019
Quantity		
Troy ounces (million)	4.0421	4.0421
Price		
USD/troy ounce	1,895.5374	1,517.9657
SEK/USD	8.2091	9.3694
Book value	62,897	57,488

As of 31 December 2020 the Riksbank holds 4 million troy ounces (troy/oz) of gold (4), which is equivalent to 125.7 tonnes. No gold was sold in 2020.

Note 2 Receivables from the IMF

	31/12/2020	31/12/2019
Special Drawing Rights	27,301	29,706
Reserve position in the IMF		
Capital contribution (quota)	52,381	57,451
IMF krona account	-40,360	-48,655
	12,021	8,796
PRGT (Poverty Reduction and Growth Trust)	2,637	–
NAB (New Arrangements to Borrow)	1,143	1,648
Total	43,102	40,150

The Riksbank's holding of Special Drawing Rights amounts to SDR 2,309 million (2,291). An amount corresponding to the total SDR that have been allocated by the International Monetary Fund (IMF) is reported as a liability (see Note 22). At the end of 2020, the SDR holding was 60 million higher than the allocation, which equals SEK 709 million.

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

At the close of 2020 the Riksbank's PRGT lending was SDR 223 million SDR (–) and NAB lending SDR 97 million (127).

At the close of 2020 the Riksbank also had a receivable from the IMF of SDR 11.2 million (12.8) for funds that the IMF may use for interest and credit losses due to delays. The IMF has made deductions from interest payments on the Riksbank's reserve position in the IMF to transfer the funds. The Riksbank has booked these deductions in the profit and loss account. Consequently they are not included as receivables from the IMF on the Riksbank's balance sheet. In 2020, the Riksdag approved that SDR 1.6 million of this receivable be used as part of a multilateral bail-in for Somalia.

Note 3 Balances with banks, loans and security investments

	31/12/2020	31/12/2019
Bank accounts	14,876	392
Bank lending	72,797	31,184
Reverse repurchase agreements	–	10,575
Bonds	285,411	378,309
Short-term securities	–	–
Total	373,084	420,460

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

Currency breakdown, balances with banks, loans and security investments

	31/12/2020	31/12/2019
Euro	72,492	90,900
US dollars	236,344	266,991
Pounds sterling	17,414	16,650
Australian dollars	16,603	20,749
Canadian dollars	16,985	12,660
Norwegian kroner	8,692	6,301
Danish kroner	4,554	6,209
Japanese yen	0	0
Total	373,084	420,460

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

Maturity, balances with banks, loans and security investments

Maturity	Bal. w. banks and loans	Securities
Up to 1 month	45,124	10,560
Over 1 month, up to 3 months	27,903	8,101
Over 3 months, up to 1 year	14,646	26,107
Over 1 year, up to 5 years	–	149,950
More than 5 years	–	90,693
Total	87,673	285,411

The Riksbank did not participate in any automatic securities lending programmes in 2020.

Note 4 Structural operations

Under this item, the Riksbank's lending to banks as a result of the covid-19 pandemic is reported. Out of the loaned amount, SEK 164,500 million concerns lending for onward lending to businesses, and SEK 3,000 million concerns lending at longer maturities of three and six months, respectively, to facilitate the role of banks as credit providers to Swedish businesses. The interest rate for onward lending to businesses corresponds to the Riksbank's repo rate. The interest rate for lending on longer maturities was, from 18 March, 0.20 percentage points but was changed to the Riksbank's repo rate as of 6 July.

Note 5 Marginal lending facility

This item is used to report overnight loans to banks on their RIX accounts at the Riksbank. Loans are provided against collateral and the lending-facility interest rate since 8 July 2020 has equalled the Riksbank's repo rate plus 0.10 percentage points. The interest rate was, until 18 March, 0.75 percentage points, and from that date until 8 July, 0.20 percentage points. The interest rate was cut due to the heightened uncertainty on financial markets during the covid-19 pandemic.

Note 6 Securities of residents in Sweden denominated in Swedish kronor

In 2012 the Riksbank started to acquire SEK-denominated securities as a contingency plan to enable future purchases of Swedish securities at short notice, either to secure financial stability or to contribute to a better-functioning transmission mechanism, in the event of a crisis in the financial system.

During the year, the Riksbank implemented a series of measures to alleviate the economic effects of the covid-19 pandemic. One of the measures was to extend purchasing of securities by up to SEK 700 billion, aimed at easing credit supply and alleviating the economic downturn. Purchases were therefore made of government bonds, covered bonds (mortgage bonds), municipal bonds, corporate bonds and commercial paper.

The securities have been recorded at quoted prices.

Breakdown of SEK-denominated securities

	31/12/2020	31/12/2019
Government bonds	374,208	375,534
Covered bonds (mortgage bonds)	217,019	–
Municipal bonds	46,266	–
Corporate bonds	3,043	–
Commercial paper	300	–
Total	640,836	375,534

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

Maturity for SEK-denominated securities

Maturity	Securities
Up to 1 month	100
Over 1 month, up to 3 months	300
Over 3 months, up to 1 year	33,795
Over 1 year, up to 5 years	421,649
More than 5 years	184,992
Total	640,836

Note 7 Tangible and intangible fixed assets

	31/12/2020	31/12/2019
Land and buildings		
Cost of acquisition, 1 January	615	602
Acquisitions during the year	1	13
Divestments during the year	–	–
Cost of acquisition, 31 December	616	615
Acc. depreciation, 1 January	–284	–265
Depreciation for the year	–20	–19
Divestments during the year	–	–
Acc. depreciation, 31 December	–304	–284
Book value	312	331
Machinery and equipment		
Cost of acquisition, 1 January	725	692
Acquisitions during the year	34	45
Divestments during the year	–23	–12
Cost of acquisition, 31 December	736	725
Acc. depreciation, 1 January	–423	–376
Depreciation for the year	–52	–43
Divestments during the year	23	12
Write-down for the year	–	–16
Acc. depreciation, 31 December	–452	–423
Book value	284	302
Total book value	596	633
Tax assessment value		
Buildings	–	–
Land	–	–

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

Acquisitions during the year in 2020 included IT applications to a value of SEK 19 million (26).

The item ‘Book value, machinery and equipment’ includes intangible fixed assets in the form of application systems worth SEK 147 million (155).

Note 8 Financial assets

	31/12/2020	31/12/2019
Shares and participations		
Bank for International Settlements		
17,244 shares at a par value of SDR 5 000, of which 25% are paid up	441	441
European Central Bank		
Value of participation		
EUR 12,092,886.02	110	90
Swift		
16 shares at a par value of EUR 125	1	1
Total	552	532

Central banks in the European System of Central Banks (ESCB) that are not part of the euro system are obliged to pay in 3.75 per cent of their capital subscription in the ECB. The Riksbank's capital subscription on 31 December 2020 amounted to 2.9790 per cent and the ECB's total subscribed capital to EUR 10,825,007,069.61. The capital subscription is based on the respective country's GDP and number of inhabitants and is calculated every fifth year. The subscription paid is to cover some administration costs of participation in the ESCB. Central banks in the ESCB that are not included in the euro system are not entitled to any allocation of profit from the ECB, and neither do they have an obligation to cover any losses in the ECB.

On 1 February 2020, the Riksbank's capital subscription increased due to the Bank of England leaving the ESCB in connection with the UK's withdrawal from the EU. The Riksbank's capital subscription subsequently amounts to 2.9790 per cent and the paid-up subscription amount to EUR 12,092,886.02.

Note 9 Derivative instruments

	31/12/2020	31/12/2019
Foreign exchange swaps, USD	–	19
Foreign exchange swaps, NOK	–	23
	–	42
Total	–	42

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

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

Nominal amounts of the derivative contracts, translated into SEK

	31/12/2020	31/12/2019
Foreign exchange swaps, USD	–	–2,804
Foreign exchange swaps, NOK	–	2,846
	–	42
Total	–	42

Note 10 Prepaid expenses and accrued income

	31/12/2020	31/12/2019
Receivables from the IMF	8	50
Bank accounts and bank lending	–	0
Reverse repurchase agreements	–	15
Bonds in foreign currency	1,491	2,127
Derivative instruments	–	–
Bonds in Swedish kronor	3,757	2,732
Fine-tuning operations	–	0
Debt certificates issued	–	28
Other	15	16
Total	5,271	4,968

Note 11 Other assets

	31/12/2020	31/12/2019
Staff loans	128	145
Accounts receivable	1	2
VAT recoverable	6	7
Balances with banks	13	4
Other	0	0
Total	148	158

Note 12 Banknotes

	31/12/2020	31/12/2019
1 000 krona	2,626	3,062
500 krona	42,615	41,791
200 krona	4,529	4,982
100 krona	2,697	2,966
50 krona	831	943
20 krona	980	1,028
Invalid banknotes	5,439	5,611
Total	59,717	60,383

Banknotes in circulation are broken down by the above denominations. The item ‘Invalid banknotes’ contains banknotes in circulation that ceased to be legal tender at the end of 2013, in June 2016 and in June 2017. Banknotes that

have been invalid for more than ten years are normally written off from the liability for banknotes in circulation. At the same time, a provision is made for the outstanding amount that is expected to be redeemed, and the remainder is recognised as income. The Riksbank may redeem invalid banknotes if there are particular grounds. At the end of 2020, the value of the banknotes that the Riksbank had received but which it had not yet decided to redeem was SEK 31 million (39).

Note 13 Coins

	31/12/2020	31/12/2019
10 krona	2,085	2,116
5 krona	491	473
2 krona	347	315
1 krona	196	184
Commemorative coins	17	17
Total	3,136	3,105

Coins in circulation are broken down by the above denominations.

Note 14 Deposit facility

Overnight deposits from the Riksbank's monetary policy counterparties in their RIX accounts at the Riksbank are reported here. The interest rate on the deposit facility equalled during the year the Riksbank's repo rate minus 0.10 percentage points. The balance of these accounts has increased during the year as a result of the Riksbank's asset purchases and structural lending in Swedish kronor.

Note 15 Fine-tuning operations

This item was used to report deposits for the purpose of fine-tuning liquidity in the financial system. The fine-tuning operations ended on 9 October 2019.

Note 16 Other liabilities to credit institutions in Sweden denominated in Swedish kronor

This item is used to report overnight deposits in RIX accounts from credit institutions that have their headquarters or a branch in Sweden, but that are not monetary policy counterparties. The deposit rate, during the year, equalled the Riksbank's repo rate minus 0.10 percentage points.

Note 17 Debt certificates issued

This item is used to report the Riksbank's issuance of debt certificates, done with the purpose of absorbing liquidity from the financial system. These deposits are done at the Riksbank's most important policy rate, the repo rate, as a rule with a maturity of one week. The holding changes based on the banks' wishes to tie in funds over a maturity longer than that of the deposit-facility accounts.

Note 18 Liabilities to other residents in Sweden denominated in Swedish kronor

This item is used to report overnight deposits in RIX accounts from central counterparties or clearing institutions that have their headquarters or a branch in Sweden, but that are not monetary policy counterparties and credit institutions. The deposit rate, during the year, equalled the Riksbank's repo rate minus 0.10 percentage points.

Note 19 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. In addition, RIX account balances of SEK 0.1 (0.1) million are reported for participants that have their headquarters or a branch outside of Sweden and that are not monetary policy counterparties and credit institutions.

Note 20 Liabilities to residents in Sweden denominated in foreign currency

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

Deposits of foreign currency

	31/12/2020	31/12/2019
Euro from the Swedish National Debt Office	55,218	57,645
US dollars from the Swedish National Debt Office	118,573	135,288
Account deposits from authorities	–	1
Total	173,791	192,934

Note 21 Liabilities to residents outside Sweden denominated in foreign currency

This item was used to report amounts equalling purchase sums received in foreign currency for deposit repos.

Currency breakdown for deposit repos

	31/12/2020	31/12/2019
US dollars	–	10,575
Total	–	10,575

Note 22 Counterpart of Special Drawing Rights allocated by the IMF

The Riksbank's liability corresponding to the Special Drawing Rights (SDR) originally allocated by the IMF is reported here. The total allocation is SDR 2,249 million (2,249). The current holding of SDR amounts to SDR 2,309 million (2,291) and is reported under the item 'Receivables from

the IMF' (see Note 2). At the end of 2020, the SDR allocation was 60 million lower than the holding, which equals SEK 709 million.

Note 23 Derivative instruments

Derivative instruments with a negative value were reported here.

Note 24 Accrued expenses and prepaid income

	31/12/2020	31/12/2019
Deposit repos	–	14
Derivative instruments	–	13
Deposits, Swedish National Debt Office	1,045	1,324
Counterpart of Special Drawing Rights	5	38
Other	88	99
Total	1,138	1,488

Note 25 Other liabilities

	31/12/2020	31/12/2019
Accounts payable – trade	27	19
Other	20	18
Total	47	37

Note 26 Provisions

	31/12/2020	31/12/2019
Pension provision	67	69
Banknotes and commemorative coins	378	388
Job Security Foundation	4	3
Financial risk provision	5,000	–
Total	5,449	460

The pension provision has been calculated by the National Government Employee Pensions Board (SPV). Out of the pension liability, including special payroll tax, SEK 67 million (69) refers to PA-91 pensioners with a date of retirement prior to 2003, and SEK 0 million (0) 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. In 2020 the effect of technical revaluations was SEK 5 million (0), and has been reported as an increase in the pension liability.

The item 'Banknotes and commemorative coins' refers to the estimated future cost of banknotes and commemorative coins written off that the Riksbank may still redeem.

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

The item 'Financial risk provision' refers to a risk buffer to strengthen resilience to future losses, as financial risks in the Riksbank's balance sheet have increased, for instance due to the monetary policy measures carried out during the year to alleviate the effects of the covid-19 pandemic.

Note 27 Revaluation accounts

	31/12/2020	31/12/2019
Price effect	20,848	22,130
Exchange rate effect	2,113	14,298
Gold value effect	51,100	45,691
Total	74,061	82,119

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

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

Out of the total price effect, SEK 11,295 million (12,386) refers to domestic securities.

Exchange rate effect by currency

	31/12/2020	31/12/2019
Euro	–	3,999
US dollars	–	1,563
Pounds sterling	–	2,198
Australian dollars	967	2,053
Canadian dollars	–	1,926
Special Drawing Rights	1,146	1,791
Norwegian kroner	–	768
Danish kroner	–	–
Japanese yen	0	0
Total	2,113	14,298

Note 28 Capital

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

Note 29 Reserves

	31/12/2020	31/12/2019
Reserve fund	500	500
Contingency fund	53,682	37,498
Balancing fund	22,379	18,212
Total	76,561	56,210

The Sveriges Riksbank Act states that the Riksbank shall have a reserve fund amounting to SEK 500 million and a contingency fund. The contingency fund and the balancing fund have been used since 1988, according to guidelines for the allocation of the Riksbank's profit adopted that year. The contingency fund has also been used for entering the amounts of asset write-ups. The amounts written up in the table below have been adjusted in the case of sale and depreciation of the written-up assets. The Riksbank's holdings of gold were written up to market value by SEK 12,686 million on 31 December 1998. Fixed assets were capitalised in the amount of SEK 654 million in the balance sheet in 1994, which equalled the cost of acquisition less depreciation. In 2020, SEK 2 million (2) was reposted from the sub-item 'Write-up of fixed assets' to 'Other', due to the year's depreciation of the written-up fixed assets. The value of the BIS shares was written up by SEK 235 million in 1996 to correspond to the market value of the gold used as payment for the share allocation in that year.

Allocations and write-ups

	31/12/2020	31/12/2019
<i>Allocation of profit since 1988:</i>		
Exchange rate effect	17,991	2,475
Gold value effect	7,356	7,356
Other allocation of profit	19,669	19,001
<i>Write-up of assets:</i>		
Gold reserve	8,604	8,604
Fixed assets	46	48
BIS shares	235	235
<i>Other:</i>	-219	-221
Total	53,682	37,498

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

Change in the items 'Capital', 'Reserves' and 'Result for the year'

	Capital	Reserves	Result for the year
Balance, 31 December 2018	1,000	56,487	3,522
Transfer to the Treasury	–	–	–3,800
<i>Transfer to/from:</i>			
Balancing fund	–	–1,584	1,584
Contingency fund	–	1,306	–1,306
Result for the year	–	–	25,651
Balance, 31 December 2019	1,000	56,210	25,651
Transfer to the Treasury	–	–	–5,300
<i>Transfer to/from:</i>			
Balancing fund	–	16,184	–16,184
Contingency fund	–	4,167	–4,167
Result for the year	–	–	–4,273
Balance, 31 December 2020	1,000	76,561	–4,273

Note 30 Interest income

	2020	2019
<i>From foreign assets:</i>		
SDR	60	295
Reserve position in the IMF	18	58
PRGT (Poverty Reduction and Growth Trust)	1	–
NAB (New Arrangements to Borrow)	3	22
Bank accounts	0	19
Bank lending	352	535
Reverse repurchase agreements	36	243
Bonds	4,254	7,846
Short-term securities	21	–
Derivative instruments	–	10
	4,745	9,028
<i>From domestic assets and liabilities:</i>		
Structural operations	13	–
Bonds	1,354	1,157
Correspondent accounts	1	2
Staff loans	2	2
Negative interest deposit facility	345	52
Negative interest fine-tuning operations	–	118
Negative interest debt certificates issued	18	1,010
	1,733	2,341
Total	6,478	11,369

Note 31 Interest expense

	2020	2019
<i>From foreign liabilities:</i>		
Deposits, Swedish National Debt Office	–2,701	–3,725
Deposit repos	–33	–225
Counterpart of Special Drawing Rights	–59	–295
Derivative instruments	–1	–210
Bank accounts	–44	–
Other	–2	–
Total	–2,840	–4,455

**Note 32 Net result of financial transactions,
write-downs and risk provisions**

	2020	2019
<i>Price effect:</i>		
Realised security price effects	11,532	4,153
Write-down of securities	-237	-147
	<u>11,295</u>	<u>4,006</u>
<i>Exchange rate effect:</i>		
Realised exchange rate effects	3,886	15,532
Write-down of currencies	-17,223	-16
	<u>-13,337</u>	<u>15,516</u>
<i>Gold value effect:</i>		
Realised gold value effects	-	-
Write-downs of gold	-	-
	<u>-</u>	<u>-</u>
<i>Financial risk provision:</i>		
Financial risk provision	-5,000	-
	<u>-5,000</u>	<u>-</u>
Total	-7,042	19,522

At the close of the year, price and exchange rates were written down due to the fact that unrealised losses exceeded the unrealised gains reported in the revaluation accounts in the balance sheet. This write-down is made security by security, and currency by currency.

The item 'Financial risk provision' refers to the cost for the year for the provision to the Riksbank's financial risk buffer. This risk buffer is intended to strengthen resilience to future losses, as financial risks in the Riksbank's balance sheet have increased, for instance due to the monetary policy measures carried out during the year to alleviate the effects of the covid-19 pandemic.

When calculating the Riksbank's allocation of profit, the exchange rate effect is excluded from reported profit.

The item 'Price effect' consists of both the foreign and domestic result, see the breakdown in the table below.

Price effect broken down into foreign and domestic securities

	31/12/2020	31/12/2019
<i>Realised gains on securities:</i>		
Foreign securities	11,543	4,103
Domestic securities	-11	50
	11,532	4,153
<i>Write-down of securities:</i>		
Foreign securities	-212	-147
Domestic securities	-25	-
	-237	-147
Total	11,295	4,006

Note 33 Fees and commissions income

The item includes annual and transaction charges for the RIX system of SEK 104 million (98).

Note 34 Fees and commissions expenses

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

Note 35 Dividends received

In 2020, the Riksbank did not receive any dividend from BIS (55).

Note 36 Other income

	2020	2019
Reimbursement for the redemption of invalid banknotes	4	6
Unredeemed cash received	32	43
Reimbursement for discoloured banknotes etc.	0	0
Sold for scrap	0	-
Commemorative coins written off	-	4
Sida (Swedish International Development Co-operation Agency)	2	3
Compensation from the sale of machinery and equipment	7	-
Other	3	-
Total	48	56

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

Note 37 Staff costs

	2020	2019
Salaries and benefits	-286	-259
Salary recorded as assets	-	1
Social security contributions	-89	-81
	-375	-339
Pension premiums	-83	-68
Pension payments	-7	-7
Change in pension provision	2	6
Special payroll tax	-22	-18
	-110	-87
Training	-2	-4
Staff representation	-0	-1
Other	-10	-11
	-12	-16
Total	-497	-442

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

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

Salaries and benefits to the members of the Executive Board in 2020 amounted to SEK 14.5 million (14.0), broken down as follows:

Salaries and benefits for Executive Board members

	2020	2019
Stefan Ingves	2.0	2.1
Cecilia Skingsley	2.7	2.5
Martin Flodén	2.4	2.4
Per Jansson	2.5	2.4
Henry Ohlsson	2.5	2.4
Anna Breman	2.4	0.2
Kerstin af Jochnick	-	2.0
Total	14.5	14.0

In addition, the Governor of the Riksbank received a board fee in 2020 of SEK 1.1 million (1.0) from the Bank for International Settlements (BIS). In accordance with a decision of the General Council a deduction is made from the gross salary of the Governor of the Riksbank corresponding to the amount of the board fee from BIS. No deduction is made however, according to the

General Council's decision, for the pension received by the Governor of the Riksbank from the IMF.

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

The General Council has decided that the Ordinance on Severance Benefits for Certain Employees employed as Senior Government Officials (2003:55) shall be applied for all present Executive Board members, with the exception of Anna Breman. For Anna Breman, the General Council has decided that the new Ordinance on Occupational Pension, Income Guarantee and Severance Pay for Heads of Government Agencies (2016:411) shall apply.

Under present arrangements, Stefan Ingves may also receive a pension from BIS. This is paid to board members who have served on the board of 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.

Note 38 Administrative expenses

	2020	2019
Information, external representation	-2	-5
Transport, travel	-4	-14
Consulting assignments	-91	-48
Other external services	-120	-112
IT operations	-147	-178
Economics prize	-21	-19
Office and property maintenance	-34	-43
Other	-12	-12
Total	-431	-431

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

The costs for representation amounted to SEK 0.4 million (1.1).

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

Consulting assignments amounted to SEK 91 million (48). This amount includes the costs of IT consultants of SEK 30 million (29).

The cost of statistics deliveries of SEK 81 million (72) is the largest single item in 'Other external services'. It refers mainly to remuneration to Statistics Sweden for preparing e.g. the balance of payments statistics and financial market statistics. In addition, audit fees to the Swedish National Audit Office and the General Council's auditors are included in the amount of SEK 2 million (2).

The 'IT operations' item includes licensing expenses of SEK 54 million (50) and costs for IT services of SEK 87 million (121). Costs for IT services have decline compared with 2019, when extra initiatives were carried out aimed at reinforced contingency planning (information security and crisis contingency).

The 'Economics prize' item includes the prize sum of SEK 10 million (9) and the administration costs for the prize of SEK 11 million (10).

The largest single items in the cost group 'Office and property maintenance' consist of refurbishment and maintenance of the Riksbank's premises of SEK 11 million (16), and rent of premises of SEK 5 million (4).

Note 39 Depreciation of tangible and intangible fixed assets

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

Note 40 Banknote and coin expenses

Total purchases for banknotes and coins in 2020 amounted to SEK 3 million (25). No banknotes were bought in 2020 (21). Coins were purchased in the amount of SEK 3 million (4). No commemorative coins were bought in 2020 and 2019.

Note 41 Memorandum items

Pledged assets

- At the close of 2020 no securities were pledged in connection with foreign securities repos (10,535).

Contingent liabilities

- At the end of 2020, there were no outstanding compensation claims (5).
- The Riksbank has a commitment to provide the Nobel Foundation with funds annually for the award of a prize in economic sciences in memory of Alfred Nobel and also to bear the administration expenses for this prize. This undertaking amounted to SEK 21 million in 2020 (19). In addition to the original donation, since 2018 the Riksbank has been providing an additional grant for the Nobel Foundation's costs for the prize, which amounted to SEK 4 million in 2020.
- The Riksbank has committed to pay KPA Pensionsförsäkring AB supplementary compensation if so needed as a result of index-linking the pension benefits to which the insured is entitled. This commitment refers to personnel transferred from the Riksbank to AB Tumba Bruk (now Crane AB) in 1971.

Lending and exchange commitments in relation to the IMF

- At the end of 2020, the Riksbank's remaining lending and exchange commitments amounted to SEK 215,053 million (236,509); see the table and the description below.

Remaining lending and exchange commitments in relation to the IMF

	31/12/2020	31/12/2019
<i>Special Drawing Rights</i>		
Contractual commitment (2*allocation)	53,184	58,333
SDR allocation (see Note 2)	26,592	29,166
SDR holding (see Note 2)	-27,301	-29,706
Remaining	52,475	57,793
<i>Capital contribution (quota)</i>		
Contractual commitment (Capital contribution, see Note 2)	52,381	57,451
Reserve position (see Note 2)	-12,021	-8,796
Remaining	40,360	48,655
<i>PRGT agreement</i>		
Contractual commitment	11,824	6,484
PRGT lending (see Note 2)	-2,637	-
Remaining	9,187	6,484
<i>NAB</i>		
Contractual commitment	26,675	29,257
NAB lending (see Note 2)	-1,143	-1,648
Remaining	25,532	27,609
<i>Credit agreement</i>		
	87,499	95,968
Total remaining commitment	215,053	236,509

Special Drawing Rights

Under the IMF by-laws, the commitment that refers to Special Drawing Rights means that the Riksbank may be obliged to buy Special Drawing Rights (SDR) in exchange for foreign currency to such an amount that the Riksbank's total SDR holding is a maximum of 300 per cent of the ordinary allocation, that is to say an allocated amount of SEK 26,592 million (29,166) plus two times the allocated amount of SEK 53,184 million (58,333). This commitment also includes the Riksbank's standing arrangement to, on the IMF's request, buy or sell SDR in exchange for payment in US dollars or euro within an interval of 50 to 150 per cent of the Riksbank's total net allocation of SDR. Because the Riksbank's SDR holding amounts to SEK 27,301 million (29,706), see Note 2, the outstanding commitment amounts to SEK 52,475 million (57,793).

Capital contribution

The Riksbank's maximum commitment regarding capital contribution amounts to the total capital contribution of SDR 4,430 million (4,430), which equals SEK 52,381 million (57,451). Because the share of the total capital contribution that has been paid in in foreign currency, that is to say the reserve position, amounted to SEK 12,021 million (8,796) at the end of 2020, the remaining commitment amounts to SEK 40,360 million (48,655), which corresponds to the balance of the IMF's krona account.

PRGT agreement

In November 2016 the Riksbank entered an agreement regarding lending to the IMF to a maximum of SDR 500 million, and in July 2020 regarding an additional SDR 500 million, which equals SEK 11,824 million (6,484), under a programme known as the Poverty Reduction and Growth Trust (PRGT). Because the Riksbank's PRGT lending at year-end amounted to SEK 2,637 million (–), see Note 2, the outstanding commitment amounts to SEK 9,187 million (6,484). The funds which the Riksbank loaned in the programme may be used by the IMF for lending to low-income countries.

NAB

The commitment concerning the Riksbank's NAB agreement (New Arrangements to Borrow) to provide the IMF with a credit facility means that the Riksbank is obliged to lend to the IMF an amount of up to SDR 2,256 million (2,256), which is equivalent to SEK 26,675 million (29,257). Because the Riksbank's NAB lending at year-end amounted to SEK 1,143 million (1,648), see Note 2, the outstanding commitment amounts to SEK 25,532 million (27,609).

This agreement is only activated under special circumstances and is aimed at temporarily strengthening the IMF's lending capacity over and above the funds available under the item 'Capital contribution'. As of 1 January 2021 the Riksbank's commitment under NAB was extended – after receiving the consent of the Riksdag – for an additional five-year period. The commitment from the aforementioned date is SDR 4,500 million.

Credit agreement

In April 2017 – after receiving the consent of the Riksdag – the Riksbank entered an agreement to provide credit to the IMF in the amount SDR 7,400 million, which is equivalent to SEK 87,499 million (95,968). In order for the IMF to use the new agreement, the IMF's remaining funds for lending must be less than a lower limit of SDR 100,000 million. In addition, the lenders, that together hold 85 per cent of the committed loan resources, must approve the activation of the agreements. As of 1 January 2021 – after receiving the consent

of the Riksdag – a new bilateral agreement with the IMF applies. The new agreement concerns an amount of SDR 3,200 million.

Payment agreements

- The Riksbank has committed to pay the BIS, three months after any demand, the remaining 75 per cent of the nominal amount of the Riksbank's shareholding in the BIS. This commitment amounted to SDR 65 million (65), equivalent to SEK 769 million (843) at the end of 2020.
- The Riksbank has in 2020 signed a swap agreement with Norges Bank, according to which Norges Bank may, by special agreement, borrow Swedish kronor in exchange for Norwegian kroner.

Contingent assets

- At the end of 2020 there were no outstanding compensation claims (21.5).

Deposit agreements

- BIS has issued a 'non-binding credit commitment', according to which BIS, upon the Riksbank's request and subject to a specific agreement, may lend foreign currency to the Riksbank. This credit commitment was extended in 2020 and is valid until 27 April 2021.
- The Riksbank has an agreement with BIS whereby the Riksbank may, subject to a specific agreement, conduct repurchase agreements with BIS in securities denominated in US dollars, euros and pounds sterling. This agreement was extended in 2020, and expires on 13 July 2021.
- The Riksbank has a swap agreement with the ECB whereby the Riksbank, subject to a specific agreement, may borrow euros in exchange for Swedish kronor.
- In 2020 the Riksbank signed a temporary swap agreement with the Federal Reserve New York whereby the Riksbank may, following approval, borrow US dollars in exchange for Swedish kronor. The term of the agreement extends to 31 March 2021.
- The Riksbank has in 2020 signed a swap agreement with Norges Bank, according to which the Riksbank may, by special agreement, borrow Norwegian kroner in exchange for Swedish kronor.

The profit and loss account and balance sheet by function

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

Function	2020			2019		
	Net income	Ex-penses	Result	Net income	Ex-penses	Result
Monetary policy	2	-184	-182	2	-187	-185
Financial stability	3	-169	-166	55	-174	-119
Payments	148	-337	-189	151	-341	-190
Of which						
<i>Payment system</i>	104	-100	4	98	-106	-8
<i>Cash provision</i>	44	-150	-106	53	-193	-140
<i>Research and analysis</i>	0	-87	-87	0	-42	-42
Asset management	-3,426	-158	-3,584	26,414	-140	26,274
Statistics	0	-130	-130	0	-112	-112
Economics prize and General Council, etc.	2	-24	-22	5	-22	-17
Total	-3,271	-1,002	-4,273	26,627	-976	25,651

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

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

The allocation model is based on the format of the profit and loss account and the balance sheet, where the Riksbank's outcome for 2020 amounts to SEK -4,273 million (25,651) and the Riksbank's assets and liabilities to SEK 1,293,986 million (899,965) at 31/12/2020. Income from asset management for 2020 includes the risk provision of SEK -5,000 million.

Allocation of costs

Staff costs, excluding IT personnel

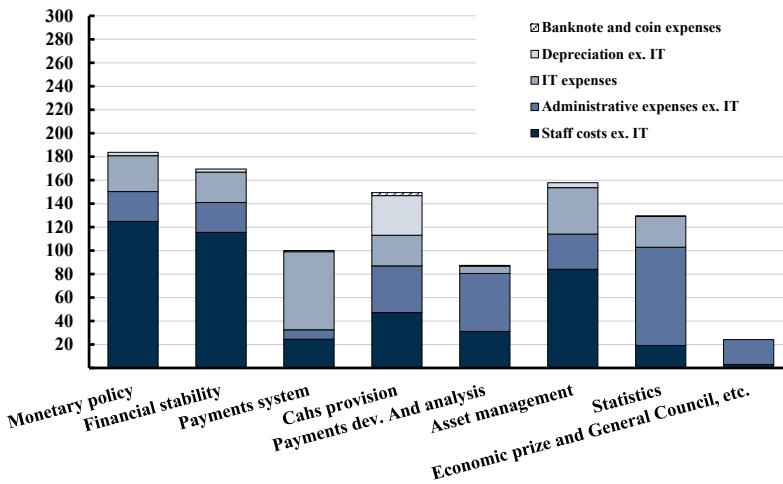
The actual payroll expense has been used when allocating staff costs for employees directly involved in a function. Payroll expenses for the employees included in the support functions have been allocated according to a cost allocation key. The key most used is the number of directly involved employees in relation to the total number of directly involved employees in all functions. Altogether about 251 employees, or 67 per cent of the total of 373, are directly involved in one of the functions. The other 122 employees are in support functions, mainly IT, communications and internal services.

Administrative expenses, excluding IT expenses

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

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

Allocation by nature of expense by function, 2020, SEK million



Source: The Riksbank

Depreciation, excluding IT-related investments

Depreciation is directly allocated to the function which is supported by the respective facility or allocated on the basis of predefined keys.

Banknote and coin expenses

Costs for purchasing banknotes and coins amounted to SEK 3 million (25) in 2020. The costs are allocated in their entirety to the Cash provision function.

IT expenses

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

Allocation of net income

Income has been allocated to the function that is responsible for it. Consequently, the fact that seigniorage derives from cash provision has not been taken into consideration. Instead seigniorage income has been allocated to asset management. Seigniorage for 2020 amounted to SEK 972 million (1,768).

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

The net income for asset management reported in the profit and loss account amounted to SEK -3,426 million (26,414) including a risk provision of SEK -5,000 million. Total return from the Riksbank's asset management for 2020 was SEK -11,484 million (41,493). See also the table in the 'Asset management' section of the Administration Report. The difference is explained by the change in the item 'Revaluation account in the balance sheet' (see the table below).

Return, asset management and reported result

	2020	2019
Interest income	6,475	11,365
Interest expense	-2,840	-4,455
Net result of financial transactions, write-downs and risk provisions reported in the profit and loss account	-7,042	19,522
Fees and commissions expenses	-19	-18
Net income, asset management	-3,426	26,414
Net result of financial transactions reported in revaluation accounts in the balance sheet	-8,058	15,079
Total return, asset management	-11,484	41,493
Net interest earnings on administration	3	4
Income from administration	152	209
Cost of administration	-1,002	-976
Result including income recognised in the balance sheet	-12,331	40,730
Reversal of income recognised in the balance sheet	8,058	-15,079
Reported result	-4,273	25,651

Net interest earnings on administration in the table above consists of interest income from the Riksbank's staff loans of SEK 2 million (2) and interest income of SEK 1 million (2) from accounts in Swedish kronor that the Riksbank holds on behalf of other central banks and international organisations.

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

Allocation of assets and liabilities

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

Function	31/12/2020		31/12/2019	
	Assets	Liabilities	Assets	Liabilities
Financial stability	441	-	441	-
Cash provision	-	63,231	-	63,880
Asset management	1,292,675	1,081,010	898,585	666,633
Unallocated	870	149,745	939	169,452
Total	1,293,986	1,293,986	899,965	899,965

The assets in the Financial stability function consist of the shareholding in the BIS.

The unallocated assets mainly contain tangible and intangible fixed assets and other assets.

The item 'Unallocated liabilities' mainly contains equity, revaluation accounts and result for the year.

Liabilities from asset management for 2020 include the risk provision of SEK 5,000 million.

Five-year overview

The five-year overview presents the balance sheet and profit and loss account restated according to current accounting policies.

Balance sheet

<i>SEK million</i>	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016
ASSETS					
Gold	62,897	57,488	45,981	43,190	42,412
Claims on residents outside Sweden denominated in foreign currency					
Receivables from the IMF	43,102	40,150	34,740	28,653	29,063
Balances with banks, loans and security investments	373,084	420,460	453,634	436,093	466,970
	416,186	460,610	488,374	464,746	496,033
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor					
Structural operations	167,500	–	–	–	–
Marginal lending facility	–	–	0	20	0
	167,500	–	0	20	0
Securities of residents in Sweden denominated in Swedish kronor					
	640,836	375,534	392,063	353,874	298,645
Other assets					
Tangible and intangible fixed assets	596	633	653	677	667
Financial assets	552	532	522	522	522
Derivative instruments	–	42	–	–	–
Prepaid expenses and accrued income	5,271	4,968	6,730	6,391	6,268
Other assets	148	158	191	217	265
	6,567	6,333	8,096	7,807	7,722
Total assets	1,293,986	899,965	934,514	869,637	844,812

The table continues on the next page

	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016
LIABILITIES AND EQUITY					
Banknotes and coins in circulation					
Banknotes	59,717	60,383	59,147	55,215	57,535
Coins	3,136	3,105	3,034	2,773	4,858
	62,853	63,488	62,181	57,988	62,393
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor					
Deposit facility	494,574	117,666	6	81	37
Fine-tuning operations	–	–	104,099	27,055	144,143
	494,574	117,666	104,105	27,136	144,180
Other liabilities to credit institutions in Sweden denominated in Swedish kronor					
	194	184	107	81	60
Debt certificates issued	380,002	314,944	352,203	391,203	220,771
Liabilities to other residents in Sweden denominated in Swedish kronor					
	349	303	309	122	101
Liabilities to residents outside Sweden denominated in Swedish kronor					
	1,648	3,740	112	6,589	232
Liabilities to residents in Sweden denominated in foreign currency					
	173,791	192,934	254,802	237,905	256,723
Liabilities to residents outside Sweden denominated in foreign currency					
	–	10,575	2,220	3,481	11,264
Counterpart of SDR allocated by the IMF	26,592	29,166	27,714	26,273	27,540

The table continues on the next page

	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016
Other liabilities					
Derivative instruments	–	–	544	528	910
Accrued expenses and prepaid income	1,138	1,488	1,640	1,584	1,424
Other liabilities	47	37	51	39	37
	1,185	1,525	2,235	2,151,	2,371
Provisions	5,449	460	477	498	503
Revaluation accounts	74,061	82,119	67,040	56,423	60,313
Equity					
Capital	1,000	1,000	1,000	1,000	1,000
Reserves	76,561	56,210	56,487	54,861	50,351
	77,561	57,210	57,487	55,861	51,351
Result for the year	–4,273	25,651	3,522	3,926	7,010
TOTAL LIABILITIES AND EQUITY	–1,293,986	899,965	934,514	869,637	844,812

Profit and loss account

<i>SEK million</i>	2020	2019	2018	2017	2016
Interest income	6,478	11,369	8,147	6,015	5,829
Interest expense	–2,840	–4,455	–4,622	–3,091	–2,431
Net result of financial transactions, write-downs and risk provisions	–7,042	19,522	460	321	4,152
Fees and commissions income	104	98	86	79	53
Fees and commissions expenses	–19	–18	–19	–24	–17
Dividends received	–	55	51	62	44
Other income	48	56	275	1,427	293
Total net income	–3,271	26,627	4,378	4,789	7,923
Staff costs	–497	–442	–414	–414	–403
Administrative expenses	–431	–431	–362	–385	–368
Depreciation of tangible and intangible fixed assets	–71	–78	–67	–61	–54
Banknote and coin expenses	–3	–25	–13	–14	–88
Total expenses	–1,002	–976	–856	–863	–913
Result for the year	–4,273	25,651	3,522	3,926	7,010

ASSESSMENT OF INTERNAL CONTROL

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

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

The Executive Board has assessed whether the Riksbank's internal control in 2020 has met the requirements in the Sveriges Riksbank Act and its conclusion is that the internal control has been satisfactory for the period covered by the Annual Report.

Stockholm, 11 February 2021

Stefan Ingves
Governor

Cecilia Skingsley
First Deputy Governor

Anna Breman
Deputy Governor

Martin Flodén
Deputy Governor

Per Jansson
Deputy Governor

Henry Ohlsson
Deputy Governor

ANNEX 1

The departments of the Riksbank and their tasks

Payments Department

Head of Department: Christina Wejshammar

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

Financial Stability Department

Head of Department: Olof Sandstedt

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

Markets Department

Head of Department: Heidi Elmér

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

Monetary Policy Department

Head of Department: Jesper Hansson

The Monetary Policy Department is responsible for the economic analysis that provides a basis for the decisions made to meet the price stability target. The department monitors and analyses economic and price developments, and is

responsible for financial market and balance of payments statistics. This department also contains the Riksbank's Research Division.

Corporate Services Department

Head of Department: Marianne Olsson

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

General Secretariat

Head of Department: Anders Vredin

The General Secretariat coordinates day-to-day operations and supports the Executive Board's governance and control, as well as strategic development of the Bank's activities. The department also provides secretariat services for the General Council, the Executive Board and the Management Group. The General Secretariat coordinates the Riksbank's communications work, work on operational and financial risks, and some interdepartmental projects such as the development of the e-krona pilot and support to central banks in emerging market economies via what is known as technical assistance. The department also contains functions for data protection, regulatory compliance assurance, information security, business continuity coordination and legal support.

Internal Audit Department

Head of Department: Simon Rörborn

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.

APPENDIX 2

Consultation work of the Riksbank

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

In 2020, the Riksbank provided over 32 consultation responses in total, concerning, among other matters, supervision in the financial area and proposed measures to strengthen the stability of the financial system. Most consultation responses were issued by the head of the appropriate department.

The Executive Board's consultation responses

Over the year, the Executive Board provided four consultation responses of particular importance:

- the report A new Sveriges Riksbank Act (SOU 2019:46)
- Proposal to amend Finansinspektionen's regulations on countercyclical capital buffer value
- Proposal for general guidelines on exemptions from amortisation requirements on special grounds
- the report Sweden and the banking union (SOU 2019:52)

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

ANNEX 3

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2020

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel for 2020 was awarded to Paul R. Milgrom and Robert B. Wilson for their improvements to auction theory and inventions of new auction formats. Their discoveries have benefited the entire chain of parties involved in auctions: not only buyers and sellers but also taxpayers.

Paul R. Milgrom was born in 1948 in Detroit, USA and is currently professor at Stanford University in Stanford, USA. Robert B. Wilson was born in 1937 in Geneva, USA and also works as professor at Stanford University.

In order to mark the year's Economics prize, the Riksbank hosted Nobel Calling, an online seminar for the general public in cooperation with the Nobel Prize Museum, on 12 October. Participants were able to listen to discussions on the significance of the Nobel Prize and find out more about the year's Economics Nobel laureates. First Deputy Governor Cecilia Skingsley participated on behalf of the Riksbank. In addition, on 30 November, a digital seminar was held with the laureates for Riksbank members of staff.

The Sveriges Riksbank Prize in Economic Sciences was established in connection with the Riksbank's 300th anniversary in 1968. By making a donation, the Riksbank committed itself to giving the Nobel Foundation each year in perpetuity the prize money and an amount of 65 per cent of the prize money to cover the Foundation's expenses for administration and awarding the prize. In 2018, the Riksdag decided that, each year, the Riksbank should provide an additional grant due to increased costs for managing the Prize in Economic Sciences. The Government has established the statutes for the prize.

The prize is awarded every year to a person or persons who have produced work of outstanding importance in the field of economic sciences. The Royal Swedish Academy of Sciences selects the prizewinner(s) according to the same principles as for the Nobel Prizes. The prize amount is also the same. In 2020, the prize money amounted to SEK 10 million. This money is paid by the Riksbank. If there is more than one winner, the prize amount is shared equally between them.

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel has been awarded every year since 1969. All of the previous laureates are listed on the Riksbank's website riksbank.se.

ANNEX 4

Glossary

Activation of fixed assets

Recording of expenses for a fixed asset as an asset in the balance sheet, instead of as an expense in the profit and loss account. The fixed asset is then written off over its economic life (see also depreciation). All fixed assets with a value exceeding half a price base amount are activated.

AGAR

Working Group for Alternative Interest Rates that worked on identifying complements and/or alternatives to STIBOR, and making a recommendation for this interest rate to the market. AGAR was made up of Swedish banks with the Riksbank, Finansinspektionen, the Swedish National Debt Office and the Swedish Bankers' Association as observers.

Balance of payments

Statistical report of a country's economic transactions with the rest of the world.

Ban on instructions

Prohibition for a member of the Executive Board on seeking or receiving instructions when carrying out his or her monetary policy tasks. Executive Board members' independent monetary policy stance is based on the Instrument of Government and the Sveriges Riksbank Act.

Banknotes and coins in circulation

Banknotes and coins that are in circulation in society outside the Riksbank. A decrease of the amount in the balance sheet item Banknotes and coins in circulation means that the banks have returned banknotes and coins to the Riksbank and been paid for this via deposits in their accounts in the Riksbank's payment system RIX. The liabilities item Banknotes and coins thereby decreases at the same time as the liability in Swedish kronor to the Riksbank's counterparties increases to a corresponding degree.

Basel Committee

Committee within the Bank for International Settlements (BIS) for international cooperation on issues relating to bank supervision and financial stability. The Basel Committee is made up of representatives of supervisory authorities and central banks from 28 different countries. It formulates standards and guidelines and issues recommendations.

Basel III

International regulatory framework for banks that mainly regulates their capital adequacy, i.e. how much capital a bank must hold in relation to the risk it

takes, and the way they manage liquidity. Basel III was developed by the Basel Committee.

BIS, Bank for International Settlements

Coordinating body for central banks with its headquarters in Basel.

Bond

Security issued by a government, municipality or company and that functions as a kind of loan. In practice, the purchaser of a bond lends out a sum of money to the issuer and earns interest on it. A bond usually has a fixed maturity of one year or longer. Upon maturity, the issuer repays the bond's nominal amount. There are also what are known as zero coupon bonds, for which no periodic interest is paid. Instead, they are sold at a discounted value.

Cash Handling Advisory Board

Forum for discussing issues concerning cash management in society. The Cash Handling Advisory Board was established by the Riksbank in 2006 and is made up of representatives of the Riksbank, banks, cash depot companies, cash-in-transit companies, the retail trade and the authorities involved.

CCP, central counterparty

Financial company that acts as an intermediary between buyer and seller in a securities transaction. This means that the parties have no risk towards each other, but towards the central counterparty instead.

Classified information

Protective security also involves protecting information concerning security-sensitive activities that is therefore subject to confidentiality pursuant to the Public Access to Information and Secrecy Act or that would have been subject to that Act, had it been applicable. This is known as classified information and is divided into four protective security classes on the basis of the damage to Sweden's national security that could be incurred should they be disclosed.

Contingent asset

Asset that may perhaps fall to the Riksbank, depending on uncertain future events outside the Riksbank's control. Due to this uncertainty, the asset shall not be reported in the balance sheet, but shall be mentioned in the annual report.

Covered bond

Bond in which the holder has higher collateral in the event that the issuer should enter bankruptcy. This collateral consists of the issuer holding certain assets (primarily mortgage loans) separate from its other assets so that they can be used in the event of a bankruptcy to repay money to the holder of the covered bond.

CPI, Consumer Price Index

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

CPIF, the CPI with a fixed mortgage rate

Statistical measure of the price level that is the Riksbank's target variable for the inflation target. Unlike the CPI, the CPIF is not directly affected by changes in interest rates for household mortgages. The CPIF is calculated every month by Statistics Sweden.

CPMI, Committee on Payments and Market Infrastructures

Committee within the Bank for International Settlements (BIS) that promotes safe and efficient payments, clearing and settlement. Was previously known as the Committee on Payment and Settlement Systems (CPSS).

Currency swap

Derivative instrument entailing an agreement between two parties on the respective purchase and sale of a currency at the daily rate, after which they will respectively sell or purchase it back at a later date at a predetermined rate. Currency swaps are often used to obtain liquidity in another currency, but there may also be other reasons. For example, central banks can use currency swaps to obtain a temporarily larger surplus or deficit of their own currency in the banking system.

Decision by circulation

Decision taken without the Executive Board having been convened. When a decision is taken by circulation, the Governor of the Riksbank proposes a decision, either orally or in written form, to the individual Executive Board members, after which the opinions of the members are collected and minuted.

Deposit facility

Account in which the monetary policy counterparties deposit money at the Riksbank overnight. See also Standing facilities.

Depreciation

Allocation of the acquisition cost of an asset over the number of years that the asset is calculated to be in use. The asset's value in the balance sheet is reduced by a corresponding amount each year.

Derivative instruments

Financial instruments that are linked to an underlying asset, for example shares or a currency, and that entail an agreement between two parties on a purchase or exchange at a specific future point or period in time. The value of a derivative instrument depends on the development of the value of the underlying asset. Trading in derivative instruments involves speculating in how the value of the underlying asset will change during the period agreed. Derivative instruments are often used to spread and minimise risks. The most common derivative instruments are options, futures and swaps (swap agreement).

Discount

The difference between the amount paid and the nominal amount for a financial instrument if the nominal amount is greater.

Discounted value

The present value of a future payment, with consideration taken of interest over the period until payment. Dependent on the purpose of the calculation of the discounted value, consideration may also be taken of inflation.

EBA, European Banking Authority

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

ECB General Council

Consultative body within the European System of Central Banks (ESCB) consisting of the governors of all the EU central banks (including those that have not adopted the euro) as well as the President and Vice President of the ECB.

ECB, European Central Bank

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

Ecofin Council

Group within the Council of the European Union (Council of Ministers) that consists of the economic and finance ministers of the European Union. The Ecofin Council is responsible for economic policy, financial markets, movement of capital and economic links with countries outside the EU.

EFC, EU Economic and Financial Committee

Advisory body to the ECOFIN Council and the European Commission that monitors economic and financial development in the EU and euro area. The EFC is made up of higher officials from national authorities and central banks, as well as from the European Central Bank and European Commission.

ESCB, the European System of Central Banks

Forum for cooperation between the ECB and the national central banks in all the EU Member States, both those that have adopted the euro and those that have not. See also Eurosystem.

ESRB, European Systemic Risk Board

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

Euroclear Sweden

Swedish central securities depository that carries out clearing and settlement of transactions with Swedish shares and fixed-income securities, and that maintains a register of who owns them.

Eurosystem

Cooperation organisation that takes care of monetary policy in the euro area. Consists of the European Central Bank and the national central banks in the euro area.

Financial markets

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

Financial Stability Council

Discussion forum for matters of financial stability. Representatives of the Government, Finansinspektionen, the Swedish National Debt Office and the Riksbank participate in the Council.

Finansinspektionen (Swedish financial supervisory authority)

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

Fixed assets

Assets that are intended for permanent use or possession. Examples of such assets are buildings and equipment. The opposite of fixed assets are current assets.

FSB, Financial Stability Board

International board that coordinates the work of national authorities and international regulatory bodies in the field of financial stability. Sweden is not a member, but representatives of the Riksbank occasionally participate in various working groups.

GDP per capita

GDP divided by the number of inhabitants in the country.

GDP, Gross Domestic Product

The value of all goods and services produced in a country during a period, usually one year or one quarter. GDP can be calculated in several different ways. One common way is to total the value of everything consumed, invested in and exported, and then deduct the value of everything imported.

IMF, International Monetary Fund

International organisation that works to ensure the stability of the global financial system and to prevent international financial crises. The IMF monitors and analyses the development of the 189 countries that are members. The organisation also provides technical assistance and lends money to countries carrying out economic adjustment programmes. The IMF's Board of Directors consists of representatives of the IMF's 24 constituencies, where each constituency covers one country or group of countries.

IMFC, International Monetary and Financial Committee

Committee within the IMF that, in practice (but not formally) determines the main direction of the IMF's work in the short and medium terms. Just like the

IMF's Board of Directors, the committee consists of one representative from each constituency, totalling 24. The IMFC meets twice a year.

Inflation

Increase of the general level of prices that simultaneously means a decrease in the value of money. Inflation is most usually measured as the change in the CPI or CPIF.

Interest rate swap

Derivative instrument entailing an agreement between two parties on a mutual exchange of interest flows, for example fixed-rate against variable rate interest and vice versa.

Liquid funds

Assets that can rapidly be used for payments, such as cash or account balances.

Liquidity

Short-term payment ability, which is to say the ability to provide liquid funds rapidly. The word can be used for individual companies or organisations, or for the financial system as a whole. It can also be used as a synonym for liquid funds. Finally, it is also possible to discuss the liquidity of securities. In this case, the word refers to the ability to convert securities into money, rapidly and at a low transaction cost.

Marginal lending facility

Account from which the monetary policy counterparties can borrow money from the Riksbank overnight. See also Standing facilities.

Medieakademin

Non-profit organisation founded by Göteborgs-Posten newspaper, the University of Gothenburg, Forsman & Bodenfors and NFO Infratest (now Kantar Sifo) that, among other things, publishes the confidence barometer, a survey of confidence in social institutions, individual companies and the mass media.

Modified duration

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

Monetary policy

Measures adopted by a central bank to maintain price stability. The Riksbank's main tool for this is the repo rate. Monetary policy also aims to support the objectives of general economic policy, which are to achieve sustainable growth and high employment.

Monetary policy operations

The Riksbank conducts various monetary policy operations to implement monetary policy in practice. The Riksbank primarily does this with the assistance of market operations and standing deposit and lending facilities. In addition, the Riksbank can take other measures if necessary.

NBMF, Nordic-Baltic Macprudential Forum

Informal group consisting of central bank governors and heads of supervisory authorities in the Nordic and Baltic regions. The NBMF meets twice a year to discuss possible risks threatening financial stability and macroprudential policy measures to manage these.

NBSG, Nordic-Baltic Stability Group

Nordic-Baltic cooperation on financial stability, with a focus on crisis management issues. Ministries of finance, central banks and supervisory and resolution authorities in the Nordic and Baltic countries cooperate in this. The NBSG meets once a year. Regular crisis exercises are also held.

Net interest income

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

Nominal amount

The amount at which a security is issued. For an interest-bearing security, it is the amount that the holder receives back upon maturity. For banknotes and coins, it is the amount specified on the banknote or coin.

NPL, non-performing loan

Loan where the borrower has stopped paying the agreed interest or amortisation. Sometimes also called a distressed loan. In most countries, a loan is classed as non-performing if payment is 90 days past due. See also problem loans.

Policy rate

Interest rate that a central bank sets for monetary policy purposes. The Riksbank's policy rate is the repo rate.

Price stability

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

Problem loans

Loans where the probability of credit losses is heightened. There is no exact definition for what is included by the term. The term is often used synonymously with NPL (non-performing loans), but it can also be used more generally for loans that have not been classified as NPLs.

Protective security

Protective security concerns protecting the information and the activities that are of importance for Sweden's national security against espionage, sabotage, terrorist offences and certain other threats.

Provision

Amounts that are reserved in the accounts for future costs.

PSD2, the second payment services directive

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

Repo rate

The Riksbank's policy rate.

Repo-rate path

The Riksbank's forecast for the repo rate.

Resolution

Reconstruction or settlement of a bank in distress in an orderly manner. Resolution is used by the government as an alternative to bankruptcy for banks that are deemed to be systemically important (Too-Big-To-Fail). The aim of this is to avoid a financial crisis and that the taxpayer will be forced to bear the costs of the bank's collapse. According to the European Bank Recovery and Resolution Directive, each EU country must appoint a special resolution authority with responsibility for managing distressed banks. Sweden's resolution authority is the Swedish National Debt Office.

Retail payments council

Forum for dialogue aimed at promoting the functioning of the Swedish market for payment services. A total of 14 authorities and private actors, who play an important role in the payment market, participate in the retail payments council.

Riksbank certificate

Security with a maturity of one week, as a rule, that is issued by the Riksbank and that can be purchased by the Riksbank's monetary policy counterparties. A Riksbank Certificate acts as a kind of borrowing. The interest received by the counterparty when it invests money in Riksbank Certificates is the repo rate. In the balance sheet, Riksbank Certificates are reported under Debt certificates issued.

Riksdag Committee on Finance

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

RIX

The Riksbank's payment system for large-value payments in real time. Participants in RIX include banks, clearing organisations, the Swedish National Debt Office and the Riksbank.

Settlement

Final regulation of debts and claims between two banks, when money or securities are transferred between them. Settlement is executed on a daily basis.

SOM Institute

Independent survey research organisation at the University of Gothenburg that investigates the habits and attitudes of the people of Sweden. SOM stands for Society, Opinion and Mass media.

Standing facilities

Accounts for deposits and loans overnight that can be used by the Riksbank's monetary policy counterparties. The standing facilities give the counterparties the possibility of managing their liquidity, at the same time as they act as a monetary policy instrument. By setting the deposit rate just below the repo rate, and the lending rate just above it, the banks are given an incentive to set their own overnight rates in between. This allows the Riksbank to steer overnight rates and, by extension, other short-term market rates against the repo rate. (In recent years, when the banking system has had a surplus of liquidity, the lending rate has become less important. The deposit rate, however, still acts as a lower bound for overnight rates.)

Statistics Sweden

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

Stress test

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

Swap agreement

Derivative instrument entailing an agreement between two parties, over a certain period, to exchange interest flows (see interest rate swap) or currencies (see currency swap) with each other.

SWIFT, Society for Worldwide Interbank Financial Telecommunication

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

Too-Big-To-Fail (TBTF)

Also known as systemically important. This expression is used for banks that are considered to be so large and intricately interlinked with the rest of the

financial system that they cannot fail without there being very serious consequences for the economy. For these banks, the market can expect that the government will intervene and rescue the bank if it encounters problems. This is problematical as it can lead to the bank becoming more inclined to take risks and to the bank's risks not being priced correctly.

Transmission mechanism

The process through which monetary policy affects inflation and the economy in general. This takes place by market rates and the banks' willingness to issue loans being influenced and by the krona appreciating or depreciating.