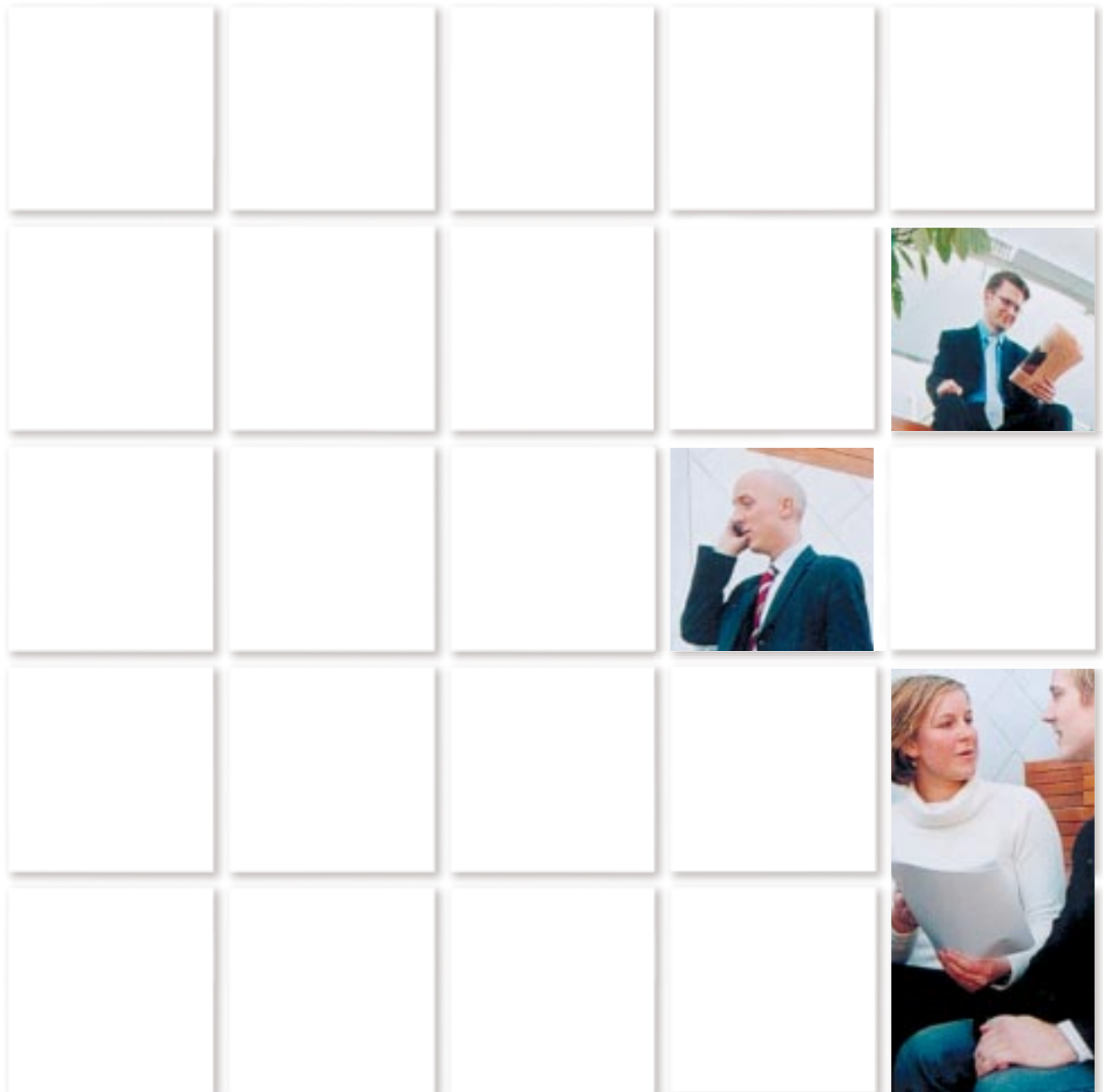


Annual Report 2002



The Riksbank's tasks are to maintain price stability and to promote a safe and efficient payment system. Openness and active communication are an essential element of the operations and a requirement if the Riksbank is to be able to fulfil its objectives. It is this that we wish to focus on in this year's Annual Report.

■ Contents

INTRODUCTION

The year in figures	4
2002 in brief	5
Statement by the Governor	6

OPERATIONS 2002

Monetary policy	9
Financial stability	15
Security	19
Cash management	21
International co-operation	22
Research	24
Statistics	27

HOW THE RIKSBANK WORKS

The monetary policy process	28
The analysis of financial stability	32

MANAGEMENT AND ORGANISATION

Organisation	36
The Executive Board	38
Employees	40
The General Council	44

THE RIKSBANK'S PRIZE IN ECONOMIC SCIENCES

46

ANNUAL ACCOUNTS

Directors' report	48
Accounting principles	53
Balance Sheet	54
Profit and Loss Account	55
Notes	56
Five-year overview	61
Subsidiaries	62
Allocation of profits	64
Auditors' report	65
Glossary	66
Publications	67
Submissions	68

Carl-Fredrik Pettersson
(seated), Stefan Svanström,
Charlotta Hyléen and
Fredrik Östbom from
the Monetary Policy
Department.



■ Sveriges Riksbank

The Riksbank is Sweden's central bank and an authority under the Riksdag, the Swedish parliament.

The Riksbank's tasks are to maintain price stability and to promote a safe and efficient payment system. The bank's primary instrument for influencing inflation is the repo rate, which is set by the Executive Board.

To ensure that its interest rate decisions are well founded, the Riksbank has considerable resources for economic analysis and research at its disposal. These analyses also form the basis for the bank's oversight of financial stability. The Riksbank monitors and reports on the functioning of the banks and the financial markets in order to promote a safe and efficient payment system.

The Riksbank has approximately 450 employees and is governed by an Executive Board consisting of one Governor, Lars Heikensten, and five deputy governors. The members of the Executive Board are appointed by the General Council of the Riksbank for a period of six years.

THE YEAR IN FIGURES

Key figures	2002	2001	2000
<i>At the end of the year</i>			
Result for the year (SEK billion)	-0.1	19.3	20.3
Gold and foreign currency reserve (SEK billion)	169	165	168
Average number of employees	437	427	411
Repo rate (per cent)	3.75	3.75	4.00
Short-term rate (three months SSVX, per cent)	3.57	3.70	4.09
Long-term rate (ten-year treasury bonds, per cent)	4.71	5.35	4.86
<i>On average</i>			
GDP (percentage change)	1.5	0.8	4.4
Unemployment (per cent)	4.0	4.0	4.7
CPI inflation (percentage change)	2.4	2.6	1.3
UND1X inflation (percentage change)	2.5	2.8	1.4

■ 2002 in brief

- The CPI inflation rate was 2.4 per cent. Stability in the financial system continued to be good. In its latest assessment, the Riksbank estimated economic growth in Sweden at 1.5 per cent.
- On 18 March the Riksbank raised its repo rate by 0.25 percentage points to 4.0 per cent, with effect from 20 March. On 25 April the repo rate was raised to 4.25 per cent, with effect from 2 May. On 14 November the repo rate was lowered to 4.0 per cent, with effect from 20 November, and on 4 December the repo rate was lowered to 3.75 per cent with effect from 11 December. At the end of the year, the repo rate was 3.75 per cent.
- Riksbank Governor, Urban Bäckström, announced that he would be retiring at the end of 2002, two years before the end of his term. On 13 June the General Council of the Riksbank appointed Lars Heikensten as new Riksbank Governor and Eva Srejber as new First Deputy Governor, with effect from 1 January 2003. Both were appointed for a term of six years.
- During the year, the Riksbank published four Inflation Reports and two Financial Stability Reports. The members of the Executive Board made a total of more than 100 public speeches between them.
- Crane & Co took over the operation of Tumba Bruk's banknote printing works and paper mill. The Swedish Mint was taken over by Nordic Coin AB.
- A decision was made regarding the orientation for a sale of the Riksbank's wholly-owned subsidiary, Pengar i Sverige AB. The company was later divided into Svensk Kontantförsörjning AB and Pengar i Sverige AB. A comprehensive overhaul of the cash management structure is taking place at the beginning of 2003.
- Preparations were initiated with a view to transferring the production and development of financial market statistics and parts of the balance of payments statistics to Statistics Sweden (SCB) in 2003.



The Riksbank now broadcasts press conferences live on the Internet. Urban Bendtz (left) and Lars Strand in the Riksbank's studio.

- The discount rate was replaced by a reference rate which will be set by the Riksbank on 1 January and 1 July each year. The reference rate corresponds to the Riksbank's repo rate at the end of the previous six-month period, rounded up to the nearest half-percentage point.
- The Riksbank's role as exclusive agent for the Swedish National Debt Office's foreign exchange transactions came to an end as a result of the Government's decision to allow the Debt Office to choose currency transaction counterparties other than the Riksbank.
- A new General Council of the Riksbank was appointed following the general election held during the year. Jan Bergqvist succeeded Sven Hulterström as Chairman, and Johan Gernandt remained as Vice Chairman.
- In December the General Council of the Riksbank appointed Irma Rosenberg new deputy governor and member of the Riksbank's Executive Board for a period of six years with effect from 1 January 2003.
- The Riksbank reported a loss of SEK 71 million. The appreciation of the krona reduced earnings by SEK 13.2 billion.

■ EMU in focus for 2003

Considerable turbulence on the financial markets and a changing economic outlook were the salient features of the past year. At the same time inflation fell back towards our target, in line with the Riksbank's assessment. We now have an interesting year ahead of us that includes a referendum on whether or not Sweden should join the euro. Meanwhile we will be continuing our efforts to streamline the Riksbank's activities further, to hone our economic analysis and to take new initiatives to increase openness.

The stock market was in focus in 2002. After experiencing a slight recovery in the spring, stock markets fell sharply once again in the summer. At the end of the year the value of the biggest 500 listed companies in the United States was approximately 40 per cent lower than the peak level reached in March 2000. Stockholmsbörsen dropped 37 per cent over the year.

ECONOMIC ACTIVITY SUBDUED

Economic development was subdued by the considerable stock market decline. Many households were hit by sizeable reductions in their wealth. At the same time the uncertain climate made it more expensive for companies to secure financing, particularly with regard to risk capital. As a result, both consumption and investment were hampered. Despite the gloomy media headlines, however, the Swedish economy suffered less than was feared due in part to an expansionary fiscal policy.

Neither were the effects on the financial system as problematic as feared. Stock market investment was financed by bank loans to a limited degree, which the Riksbank has observed regularly in its analyses. In the last Financial Stability Report of the year it was noted that there were no particular immediate threats to stability, even if developments called for greater vigilance. These developments nevertheless raise important questions for the future, regarding for instance the rules and regulations governing the financial markets and the responsibilities of financial operators.

INFLATION CLOSE TO TARGET

There were many indications in the spring of 2002 that Sweden would experience an upswing in economic activity as early as the autumn. At the same time resource utilisation in the Swedish economy was by all appearances high at the start of the year. However there was some overcapacity in certain industrial sectors, particularly telecommunications.

In our first Inflation Report of the year in March, our assessment was that inflation two years ahead

would exceed our target slightly. In order to ensure a stable recovery, the Riksbank elected to raise the repo rate on two occasions by a total of 0.5 percentage points to 4.25 per cent. The decisions to raise rates were also due to the fact that inflation at the time was high and there was a risk that this would affect inflation expectations. During the spring the rate of price increases turned back towards the target of 2 per cent as forecast.

Concern in the financial markets in the wake of previously inflated share prices, the risk of war, and corporate scandals, led to a decline in corporate and consumer confidence in several countries during the summer. The Riksbank adjusted down its forecasts of economic activity together with the majority of other forecasters. The inflation assessments in the last two Inflation Reports of the year indicated a rate of price increases just under the Riksbank's target. This prompted the Riksbank to lower the repo rate on two occasions during the autumn. On the whole, inflation was slightly higher than the Riksbank's target in 2002.

WELL PREPARED FOR EMU

The debate on EMU has now gathered momentum since the political party leaders agreed to hold a referendum on the euro in September. The Riksbank will be contributing to the debate by providing factual information on the issues that affect us and on the requirements for attaining the goals established for our operations by the Riksdag.

The question of whether or not to join the euro is a complex one. There are arguments both for and against joining, which are both political and economic in nature. Naturally the Riksbank does not intend to become involved in either campaign. It is important that we are able to continue our activities after the referendum with our credibility intact, regardless of the outcome.

Our operations are already characterised, however, by a potential adoption of the euro, particularly on a practical level. It is crucial that we are well prepared

if the Swedish people should vote in favour of joining. This involves working with the financial sector to ensure that the payment system is capable of handling a changeover to the euro on the date established by the Riksdag. It is important that electronic payments can be made and that banknotes and coins are available.

CHALLENGES OVER THE COMING YEARS

If Sweden does not join the euro, monetary policy will be conducted according to the same principles as today. This will not be the case if we do join, as responsibility for maintaining price stability must be exercised primarily at European level. As members of the Eurosystem, we would be required to become more involved in the European debate on monetary policy. I myself would participate in the interest rate decisions taken by the European Central Bank. Our role with regard to economic policy in Sweden would also change; responsibility for stabilisation policy would be transferred to the Riksdag and the Government.

In recent years the Riksbank's work has been guided by three objectives. We have endeavoured to make the operations more efficient, focused on more in-depth analysis, and striven to attain a high degree of openness. Exactly how we would organise our activities in order to fulfil the obligations imposed on us by the Riksdag if Sweden joins the euro is something that we have time to reflect on. It is clear, however, that our focus on analysis and efficiency in recent years, as well as the experience we have gained with regard to monetary policy and financial stability, provide us with a solid foundation.

In 2003 we will be continuing our work of transferring large parts of the production of statistics to Statistics Sweden. We will also be continuing to reduce our previously large undertakings in cash management and to transfer the production of banknotes to new owners. We will continue to streamline our operations further wherever possible, regardless of whether Sweden adopts the euro or not, and we will also be making fresh efforts in the field of analysis. Levels of openness have been improved greatly from an international perspective, but work remains to be done if politicians and the general public are to be able to evaluate the Riksbank's activities effectively.



Governor of the Riksbank Lars Heikensten.

REWARDING COLLABORATION

In conclusion I would like to thank my colleagues in the Executive Board for an enjoyable and rewarding collaboration over the past year. In particular I would like to thank Urban Bäckström, first of all for his contribution to the Riksbank, but also on a more personal level for his outstanding work over eight eventful, enjoyable and enlightening years.

I would also like to take the opportunity to welcome Irma Rosenberg as new member of the Executive Board. In addition I would like to thank the former General Council headed by Sven Hulterström and to welcome the current General Council and its Chairman, Jan Bergqvist. Last, but definitely not least, I would like to thank all the Riksbank's staff for their excellent work in 2002.

Stockholm, February 2003

A handwritten signature in black ink that reads "Lars Heikensten". The signature is written in a cursive, flowing style.

Lars Heikensten



Hand
Kassan
Utsök
Kassan

System
Kassan
Kassa

Electronics



■ Uncertain market and greater concern over international conflicts

Average inflation in 2002 amounted to 2.4 per cent when measured as an increase in the consumer price index (CPI). Underlying inflation (UND1X) was 2.5 per cent on average. The rate of inflation was subdued during the year, reaching 2.3 per cent in December according to the CPI and 2.2 per cent according to UND1X. In the Riksbank's latest Inflation Report, GDP growth was calculated to have been 1.5 per cent while employment was largely unchanged.

While debt adjustment continued as a result of the declines on stock markets, the global economy was embarking upon a cyclical recovery. This recovery dominated the first half of the year, prompting the Riksbank to raise the repo rate on two occasions during the spring. Subsequently, uncertainty increased in the wake of corporate scandals and greater unease about potential international conflicts. The summer was characterised by gloomy signals, and it became increasingly evident during the autumn that it would be a weak, prolonged upswing. The Riksbank chose therefore to lower the repo rate in two steps to 3.75 per cent.

EXPANSIONARY ECONOMIC POLICY

The year 2002 was characterised by a weak tendency towards economic recovery. At the beginning of the year there were clear signs of an improvement in economic activity both in Sweden and internationally. Economic policy was expansionary in many countries, especially in Sweden. Destocking appeared to have been completed and the level of investment had been cut back sharply. A number of different indicators seemed to suggest that the business cycle had bottomed out. The view that the economy was about to experience an upturn was reinforced by an increase in household demand for mainly durable goods.

The picture was divided, however, as there were also a number of factors that were restraining demand.

Vegetable prices were high at the beginning of the year and were a contributory cause of inflation exceeding the target of 2 per cent. For example, the price of a cucumber in January was 86% higher than a year before.

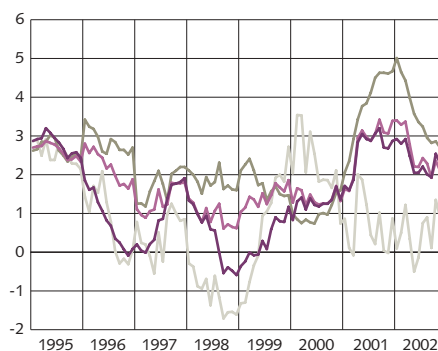


DIAGRAM 1
Different measures of inflation.
Percentage 12-month change

— CPI
— UND1X
— UNDINH
— UNDIMPX

Source: Statistics Sweden

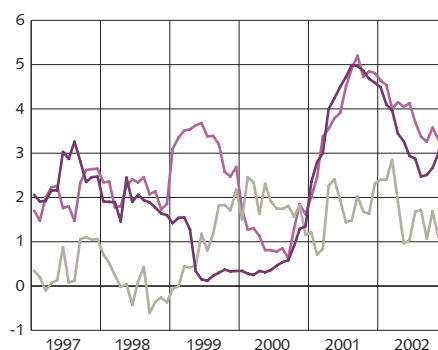


DIAGRAM 2
Breakdown of UND1X into goods, services and housing.
Percentage 12-month change

— Housing excluding interest expenditure
— Services excluding housing
— Goods excluding housing

Source: Statistics Sweden

Indexes of inflation

Changes in:

- Consumer price index (CPI) = the average level of prices for private consumption.
- Underlying inflation (UND1X) = CPI excluding house mortgage interest expenditure and direct effects of changes in indirect taxes and subsidies.
- Domestic underlying inflation (UNDINH) = CPI excluding import price movements, changes in interest expenditure and direct effects of changes in indirect taxes and subsidies.
- Harmonised index of consumer prices (HICP) = CPI excluding house mortgage interest expenditure, tenant-owned housing charges, lotteries, pools and totaliser betting, etc. HICP also includes childcare charges, for example.
- Underlying imported inflation (UNDIMPX) = CPI on mainly imported goods, adjusted for direct effects of changes in indirect taxes and subsidies.

Share prices continued to plunge, partly as a result of corporate scandals and the heightened risk of war in Iraq. The stock market decline prompted households to increase their saving, and no rise in investment was forthcoming. Uncertainty surrounding the economic recovery intensified gradually during the summer and autumn, with an increasing number of economic indicators pointing towards a more prolonged, sluggish recovery.

In Sweden inflation exceeded the established target for price stability of 2 per cent, but it remained well within the tolerated deviation level of +/- 1 percentage point. The average rate of price increases amounted to 2.4 per cent when measured by the consumer price index (CPI), and to 2.5 per cent when measured by underlying inflation (UND1X). The prices of services rose relatively sharply. As in previous years, the price increase on goods was consi-

derably lower than that on services. Average prices in international trade dropped slightly.

As anticipated by the Riksbank, inflation fell back towards two per cent during the early summer as the effects of a number of price disturbances from 2001 abated. Inflationary pressures were also eased by the weak economic climate, declining inflation expectations and lower prices of certain input goods. The latter factor was due in part to the appreciation of the krona.

Swedish inflation in 2002 was somewhat lower than the average for the euro area. When measured by the internationally harmonised consumer price index (HICP), inflation in Sweden amounted to 2.0 per cent, while the average for the euro area was 2.2 per cent. One important cause of the deviation between CPI and HICP inflation in Sweden was the introduction of maximum fees in the childcare system. This affected HICP inflation but not the CPI.

Inflation expectations at the beginning of the year were higher than the inflation target. Beginning in the summer, however, the inflation expectations of both households and companies receded following the Riksbank's interest rate rises and a drop in registered inflation.

The monetary policy target

According to the Sveriges Riksbank Act, the monetary policy target is "to maintain price stability". The Riksbank has specified this objective as follows: to hold the rate of CPI inflation at 2 per cent \pm 1 percentage point. This target was established in January 1993.

It is estimated that monetary policy has its greatest impact on inflation with a time lag of one to two years. The Riksbank therefore bases its policy on an assessment of the path of inflation during that time horizon.

Monetary policy can be described in simple terms with the aid of a rule of thumb: If the Riksbank's forecasts for inflation one to two years ahead indicate that the rate will deviate from the target, the repo rate is normally adjusted accordingly.

The Riksbank has also stated that there may be reasons to disregard temporary changes in CPI inflation, which should be made clear when decisions on the repo rate are taken.

Another reason for departing from the rule of thumb is that a return to the targeted rate in one to two years' time could have considerable, adverse consequences for production and employment. There may then be good reason to aim for a more gradual return of inflation to the target level.

In practice, monetary policy in 2002 was based on the underlying inflation rate, UND1X.

MODERATE INTERNATIONAL GROWTH

The international economy strengthened somewhat in 2002 compared with the previous year. This was particularly evident in the United States, where growth reached approximately 2.5 per cent and productivity increased sharply. Activity in the euro area was weak, however, where growth fell short of 1 per cent. The slowdown was especially noticeable in Germany.

As a result of the moderate increase in economic activity, prices in the majority of countries rose slowly. Inflation in the US fell to 1.5 per cent, while the rate in the euro area was 2.2 per cent. Japan witnessed another year of deflation.

Unlike previous years there were only minor changes in monetary policy in the major countries. All of these changes were made towards the end of the year. The US Federal Reserve cut interest rates in October, and the ECB in December.

The drop in share prices that began in 2000 continued up to October 2002 and was on a par with

the largest stock market declines of the past hundred years. By October 2002 prices on Stockholmsbörsen had fallen to around one-third of their level in March 2000. Starting in October, however, share prices began to move slightly higher.

As anticipated by the Riksbank, the krona strengthened in 2002. It is likely that the exchange rate was affected periodically by expectations of a coming referendum on Sweden joining the euro. In terms of the TCW index, the krona appreciated around 4 per cent over the course of the year.

RISE IN HOUSEHOLD INCOME

Sweden recorded higher growth in 2002 than the previous year. It is estimated that GDP growth reached 1.5 per cent compared with 0.8 per cent in 2001. There was a sharp rise in households' disposable incomes as a result of tax cuts, relatively high wage increases and an increase in transfer payments, partly in the form of maximum fees for the childcare system. This led to a rise in private consumption even though households chose to save the majority of their extra income.

The biggest contribution to GDP growth came from an increasing level of net exports.

The uncertainty that followed the heavy stock market decline was most likely a contributory factor to households' decision to increase their saving. The effect of the falling share prices on wealth was largely counteracted, however, by a continued rise in property prices.

During the first half of the year, industrial activity improved only to stagnate in the autumn. The relatively weak industrial activity resulted in a slowdown in the rate of investment.

On the whole, conditions in the labour market were unchanged compared with the previous year. Productivity developed strongly, while there was a slight decrease in the number of employment hours. The number of people in employment, however, remained at largely the same level as the previous year. This was due to a continued decline in the average number of hours worked, which was partly a result of a persistent increase in sick leave. There was a drop in employment in trade and industry but this was counteracted by a rise in the public sector. Open unemployment remained at 4 per cent of the labour force.

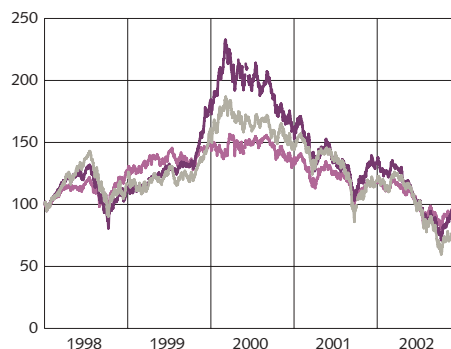


DIAGRAM 3
Stock market development in Stockholm (SAX), New York (S&P 500) and Frankfurt (DAX)

— SAX
— S&P 500
— DAX

Note: Index 02-01-1998=100

Source: The Riksbank

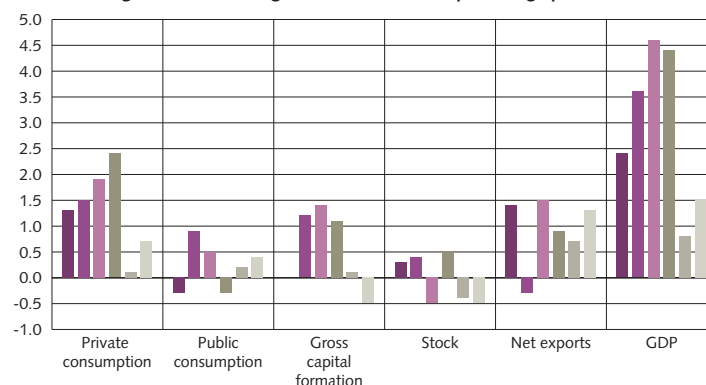


DIAGRAM 4
SEK/EUR and SEK/USD. Daily rates

— SEK/USD
— SEK/EUR

Source: The Riksbank

DIAGRAM 5
GDP growth and contributions to GDP growth. Percentage 12-month change and contribution in percentage points



■ 1997 ■ 2000
■ 1998 ■ 2001
■ 1999 ■ 2002

Note: Forecast 2002 according to Inflation Report no. 4/2002.

Sources: Statistics Sweden and the Riksbank

According to the Riksbank's latest Inflation Report, wage increases are estimated to have amounted to 4.1 per cent in 2002. This is a lower increase than in 2001 but markedly higher than that of the euro area. The lower rate compared with the previous year is mainly due to the construction of the three-year agreements that were signed in 2001. In general these had the highest wage rises at the beginning of the agreement period. During the autumn, the Swedish Municipal Workers' Union exercised its option to cancel its three-year agreement ahead of the final year.



In May, the Riksbank and the Institute for International Economic Studies organised a conference on monetary policy and financial markets in an enlarged EU. Otmar Issing (member of the ECB's Executive Board), and Sixten Korkman (Director-General at the General Secretariat of the Council of the European Union), were two of the speakers at the conference.



Fiscal policy in 2002 was clearly expansionary and the public sector's financial savings are estimated to have decreased from 4.5 to 1.2 per cent of GDP, according to the Riksbank's most recent assessment. Nevertheless, Sweden was one of the EU countries with the strongest public finances. This can be attributed to the comprehensive measures that were taken in connection with and after the financial crisis at the beginning of the 1990s with a view to stabilising the public finances, and to the new regulations that were introduced in the form of a reformed budgetary process, a surplus target for the public finances and ceilings for central government expenditure. An additional factor is that growth has been stronger in Sweden than in the euro area since the second half of the 1990s.

MONETARY POLICY DECISIONS

At the beginning of 2002 the repo rate was 3.75 per cent, and the Executive Board decided at its monetary policy meeting in February to leave this unchanged. At the same time the Executive Board concluded that prices had increased somewhat quicker than anticipated and that this raised question marks regarding resource utilisation in the Swedish economy.

Prior to the March meeting, there were increasingly stronger indications of a recovery in both international and Swedish economic activity. In the Inflation Report published at the time, it was estimated that inflation would exceed the Riksbank's target one to two years ahead. The Executive Board therefore decided to raise the repo rate by 0.25 percentage points to 4.0 per cent. In conjunction with this, the Executive Board said that additional rate rises may be necessary if economic activity continued to gather pace. In the run-up to the monetary policy meeting in April, the signs of an international recovery were becoming more distinct. As at the previous meeting it was assessed that future inflation would exceed the Riksbank's target one to two years ahead, and the repo rate was raised by an additional 0.25 percentage points to 4.25 per cent.

The repo rate was left unchanged at the monetary policy meetings in June and July. At the same time the Executive Board underlined the risk that inflation may exceed its target in the long term. On both occasions, therefore, the possibility of future rate rises was not ruled out.

The picture of increasing economic activity changed gradually over the summer and autumn. This change related to both 2002 and longer-term developments. Forecasts of Swedish growth for the following year were revised down bit by bit. In the March Inflation Report, for example, growth for 2003 was estimated to reach 3.0 per cent, while the corresponding estimate in December was 2.0 per cent. The greater part of this downward revision was made during the late summer and autumn. Weaker international demand was hampering export prospects, and it was judged that fiscal policy would be less expansionary in 2003 than was previously forecast.

The repo rate was also left unchanged at the monetary policy meetings held in August and October. The October Inflation Report emphasised the downward adjustment of domestic growth, the uncertainty surrounding the effects of the stock market decline on the real economy, and the heightened risks in international security policy. It was assessed that future inflation would be slightly below the Riksbank's target. Conditions were considered to be unusually difficult to assess, not least as a result of fluctuations on the financial markets. The Executive Board therefore decided to hold an extra monetary policy meeting in November with a view to performing a renewed assessment.

Prior to this meeting the weakness in international economic activity had become more pronounced. On the whole it was estimated that future inflation would fall short of the Riksbank's target, and the Executive Board decided to lower the repo rate to 4.0 per cent.

By the time of the monetary policy meeting in December, industrial activity in both Sweden and the rest of the world had deteriorated further. While the uncertainty on the financial markets appeared to have lessened somewhat, it was estimated that resource utilisation would be slightly lower during the forecast period than previously assumed. Even though the outlook was obscure, the assessment was that inflation would be below the Riksbank's target. The Executive Board therefore decided to lower the repo rate to 3.75 per cent.

Over the ten years that have passed since the inflation target was introduced, average growth and inflation have been 2.3 and 1.9 per cent, respectively. The corresponding figures for the preceding ten-year period were 2.1 and 7.5 per cent. Even if 2002 was a year that witnessed moderate growth and a rate of inflation that slightly exceeded the Riksbank's target, the economic trend was relatively favourable from both a historical and international perspective.

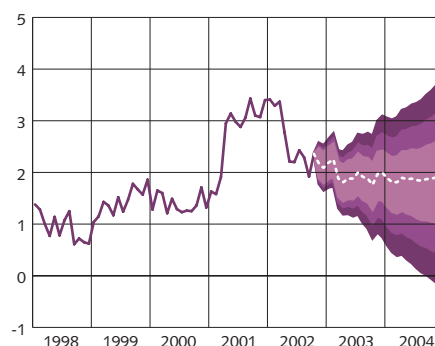


DIAGRAM 6
UND1X with uncertainty intervals according to Inflation Report no. 4/2002. Percentage 12-month change

Note: The uncertainty intervals show the 50, 75 and 90 per cent chances of UND1X inflation being within the respective range. The broken line represents the forecast in the main scenario.

Sources: BIS, Statistics Sweden and the Riksbank

Repo rate decisions 2002

- 7 February: Repo rate left unchanged at 3.75 per cent. Eva Srejber entered a reservation against the decision and proposed that the repo rate should be raised to 4 per cent.
- 18 March: Repo rate raised by 0.25 percentage points to 4.0 per cent. Villy Bergström entered a reservation against the decision and proposed that the repo rate should be raised to 4.25 per cent.
- 25 April: Repo rate raised by 0.25 percentage points to 4.25 per cent.
- 5 June: Repo rate left unchanged at 4.25 per cent. Eva Srejber entered a reservation against the decision and proposed that the repo rate should be raised to 4.5 per cent.
- 4 July: Repo rate left unchanged at 4.25 per cent.
- 15 August: Repo rate left unchanged at 4.25 per cent.
- 16 October: Repo rate left unchanged at 4.25 per cent. Kristina Persson entered a reservation against the decision and proposed that the repo rate should be lowered to 4.0 per cent.
- 14 November: Repo rate lowered by 0.25 percentage points to 4.0 per cent.
- 4 December: Repo rate lowered by 0.25 percentage points to 3.75 per cent. Eva Srejber entered a reservation against the decision and proposed that the repo rate should be left unchanged.



Reason for extra vigilance over stability issues

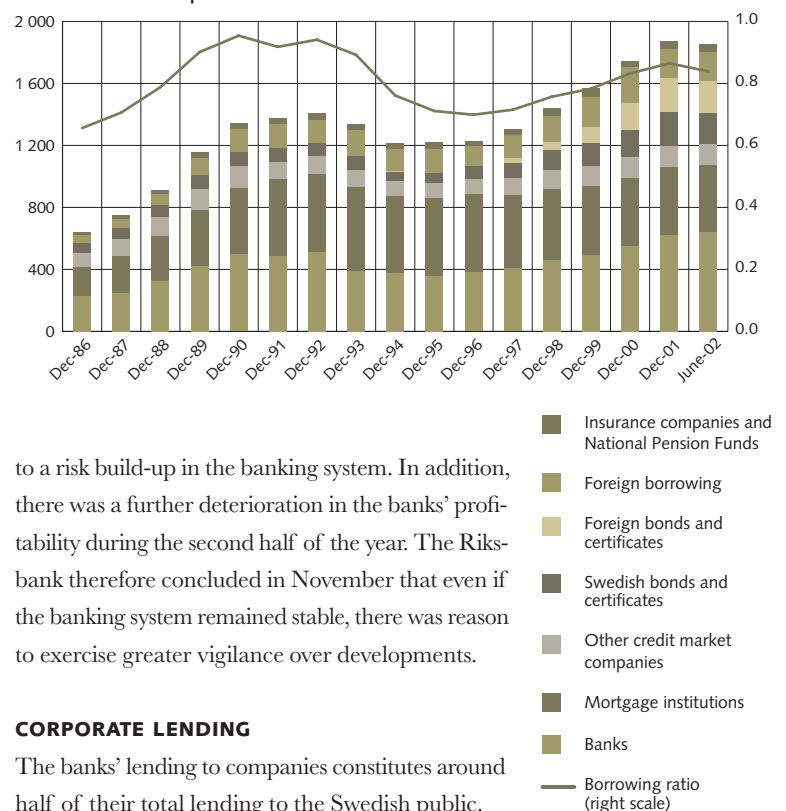
Stability in the Swedish banking system in 2002 was judged to be sound. There were, however, signs of a risk build-up in certain areas of the economy which could place a strain on the banks in the future. Developments during the year have led the Riksbank to conclude that there is reason to exercise greater vigilance over stability issues.

The Riksbank analyses stability in the banking system continuously with a view to anticipating tendencies that could prevent banks from carrying on their activities and thus jeopardise the security of the payment system. These analyses are mainly focused on areas of crucial importance to the banks such as macroeconomic trends and developments in the property, corporate and household sectors. Analyses of the situation in the banks themselves are also performed.

In its Stability Report in May, the Riksbank concluded that financial stability remained favourable. While the economic slowdown and the negative stock market performance had resulted in a deterioration in the banks' profits since the peak reached in 1996, the profitability and buffer capital of the banking system was judged to be sufficient to meet the associated risks, even if economy activity should prove weaker than anticipated. The Riksbank forecast that stability would improve over the year. This assessment was based on the premise that the economy had bottomed out and a recovery was on the way.

During the second half of the year, an increasing number of factors indicated that the economic recovery would be slower than the Riksbank had anticipated in the spring. Slacker demand for commercial property, lower profitability and an increase in bankruptcies in the corporate sector, as well as a high level of indebtedness in the household sector pointed

DIAGRAM 7
Corporate borrowing and borrowing ratio.
SEK billion and per cent



CORPORATE LENDING

The banks' lending to companies constitutes around half of their total lending to the Swedish public. Corporate lending in 2002 continued to increase at a faster rate than GDP growth and ended the year at a historically high level. At the same time companies reduced their borrowing in the bond market, which resulted in a slight decrease in their overall

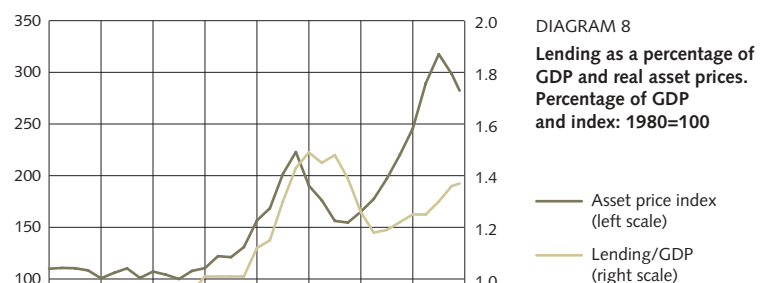


DIAGRAM 8
Lending as a percentage of
GDP and real asset prices.
Percentage of GDP
and index: 1980=100

— Asset price index
(left scale)
- - - Lending/GDP
(right scale)

Note: The assets included in the index are shares, single-family dwellings and commercial property.

Sources: BIS, Statistics Sweden and the Riksbank

House prices rose around 8 per cent in 2002 and the average price in December was approximately SEK 1 200 000 according to Statistics Sweden's preliminary figures. Financing for house purchases contributed to an increase in household borrowing.

DIAGRAM 9
Number of company bankruptcies.

— Number of bankruptcies (left scale)
— Number of employees (left scale)
— Number of companies going bankrupt with 20 or more employees (right scale)

Source: Statistics Sweden

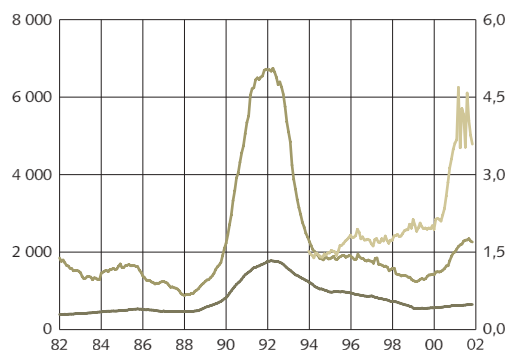


DIAGRAM 10
Development in real prices of commercial property. Index 1981=100

— Stockholm
— Gothenburg
— Malmö

Sources: NewSec AB and the Riksbank

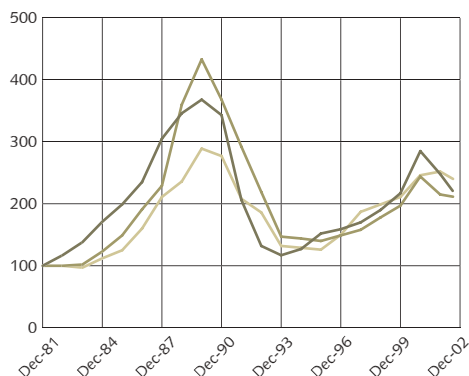
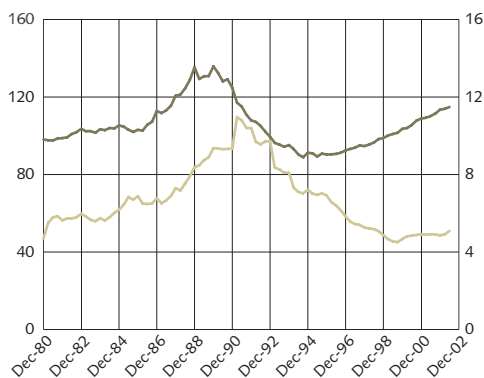


DIAGRAM 11
Households' debts in relation to disposable income and households' interest ratio. Per cent

— Debts/disposable income (left scale)
— Interest ratio after tax (right scale)

Sources: Statistics Sweden and the Riksbank



debt as a percentage of GDP. Despite the strong growth in borrowing, the ratio of equity to borrowing has doubled for both small and large companies. Interest rate expenditure had risen in relation to corporate profits (excluding interest), but did not constitute a historically heavy burden for the companies.

During the first nine months of the year, the corporate sector witnessed a small increase in the number of bankruptcies and generally weaker growth in profits. In light of the increase in bank lending to companies, the banks' credit risks were judged to have risen somewhat compared with 2001.

As a rule, bankruptcies in individual companies do not constitute a problem for the banks as the latter's exposures are limited by statutory requirements and their own restrictions. Furthermore, the importance of bank loans as a source of financing for large companies is limited since the corporate bond markets are usually capable of offering lower financing costs. For example, the financial difficulties encountered by Ericsson and ABB were not considered to constitute an immediate threat to the banking system. The fact that the financial position of neither Swedish nor foreign banks was jeopardised by the suspension of payments in Enron and WorldCom illustrates that banks are not normally vulnerable to problems in individual companies.

WEAKER PROPERTY MARKET

The property sector has previously played an important part for stability in the banks. In June 2002, 16 per cent of total bank lending was made to the property sector, while 35 per cent of lending to households and companies was secured by collateral in the form of property. Sharp falls in property prices could therefore entail major losses for the banks. After several years of price rises, there was a drop in the prices of commercial premises in metropolitan areas during both 2001 and 2002. The biggest drop was seen in the Stockholm area, although prices also fell in Gothenburg and Malmö. There remains a risk of further price falls due to persistent imbalances between supply and demand. The weaker growth in the property market has also resulted in poorer profitability for property companies. The debt/equity ratio of these companies remains low, however.

So far the situation has not been considered a threat to financial stability.

HOUSEHOLDS' INDEBTEDNESS

Households' debts continued to increase at a faster rate than their disposable income. The level of indebtedness was therefore roughly the same as at the beginning of the 1990s, when the banks were contending with major problems. One important difference, however, is that households' interest rate burden was much lower in 2002 than it was ten years ago. While just over 10 per cent of households' disposable incomes went towards interest payments at the beginning of the 1990s, only half this figure was needed in 2002. Inflation expectations in the medium term are currently stable, and an economic recovery is expected. In light of this, the Riksbank does not deem it likely that the interest rate burden will intensify over the coming years.

Households' debts in relation to their assets in the form of housing and shares are also significantly lower than during the crisis years at the beginning of the 1990s. The sharp decline in share prices has indeed resulted in this measure of indebtedness also increasing over the past two years. But while share prices have plummeted, housing prices have continued to rise. Consequently, the reduction in households' wealth has been limited.

Housing prices have soared for a number of successive years. Experience shows that periods characterised by steep rises in property prices are often followed by periods of sharp declines. Such declines increase the risk of losses from household loans. At the end of 2002, however, the Riksbank concluded that property was reasonably valued on the basis of supply and demand factors in the housing market. There are still major differences between different parts of the country though.

POORER BANK PROFITABILITY

There was a deterioration in the banks' profitability during 2002. Return on equity fell by more than three percentage points from autumn 2001 to autumn 2002. Despite this fall, return on equity amounted to eleven per cent. Lower earnings from trading and insurance activities and weaker development of financial assets have had a negative impact on profits. The banks' core earnings – net interest income and net commission income – have been steady over the past years, however.

At the same time, loan losses have increased only marginally and are still at a historically low level. The

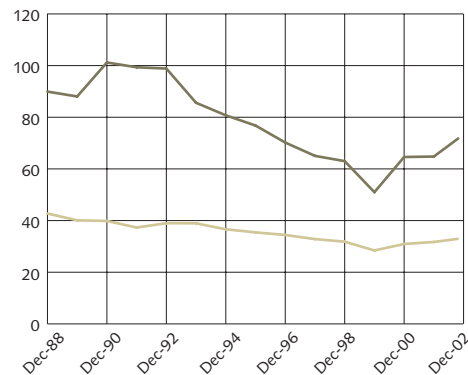


DIAGRAM 12
Households' debts in relation to their assets. Per cent

— Financial debts/financial assets
— Financial debts/(financial assets + the value of tenant-owner apartments and single-family dwellings)

Sources: The Ministry of Finance and Statistics Sweden

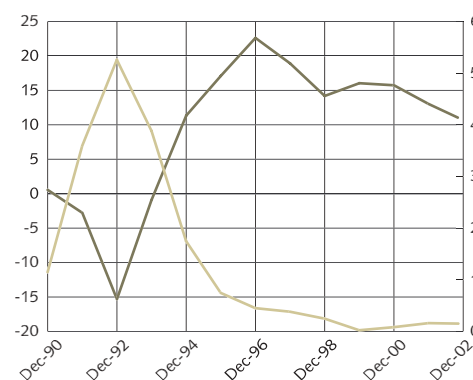


DIAGRAM 13
Return on equity after tax and loan losses as a percentage of lending in the major banks. Per cent

— Return on equity (left scale)
— Loan losses/lending (right scale)

Note: The data for 2002 refers to the most recent report period (the four most recent quarters).

Sources: The banks' reports and the Riksbank

percentage of problem loans in the major banks also remained at a low level during 2001 and 2002.

As a result of the sharp stock market decline, several bank-owned life insurance companies came close in 2002 to falling short of the statutory solvency level. In some cases the banks felt it necessary to contribute additional financing, and further capital injections could not be ruled out. The Riksbank concluded, however, that the additional contributions were not big enough to have a critical effect on the banks' capital base, even if there was a risk that the capital tied up in the life insurance companies would yield a low return. On the other hand the situation has had other negative consequences for both households and the economy in general.

In September 2002 capital adequacy in the major banks was almost 10 per cent, which was in line with the previous two years. The Riksbank's overall assessment is that the banks are well equipped to cope with a further slowdown in economic activity. Their greatest challenge will be to remain profitable without increasing risk in their operations.



Financial stability press conference. From left: Johan Schück (financial journalist from Dagens Nyheter), Lars Nyberg (member of the Executive Board), Martin Andersson (Head of the Financial Stability Department), and Martin Blåvarg (Assistant Head of the Financial Stability Department).

LIMITING RELIANCE ON SUPPLIERS

In spring 2002 serious accounting irregularities were discovered in the US company WorldCom, and the corporation was later forced into bankruptcy. The suspension of payments by WorldCom could have had immense after-effects on the financial system as the company was an important supplier of telephony, data solutions and Internet services to the financial sector in large parts of the world. The course of events proved to be undramatic, however, and no financial companies in Sweden were disrupted. On the other hand, the incident did draw attention to the financial system's vulnerability to problems encountered by suppliers of essential telecommunication and datacommunication services. An important issue is whether and in what way authorities should be able to intervene so as to reduce the financial system's reliance on one large supplier.

CROSS-BORDER THREATS AND CO-OPERATION

In addition to analysing financial stability on a regular basis the Riksbank conducts preparations to enable itself to manage potential crises in the financial

sector. The financial institutions of today are more international in nature than before, which means that if one institution meets with difficulties it is likely that these will encompass several countries. For this reason the Riksbank has been attempting for a number of years to expand international collaboration regarding the management of crises in financial institutions. During the year the Riksbank chaired a working group that comprised the central banks of the Nordic countries. Among other things, the group carried out a crisis management exercise that was focused on dealing with problems in international banks. The Riksbank also chaired a working group at the ECB for the management of financial crises. During the year the group drew up a consensus document between the central banks and supervisory authorities in the EU aimed at promoting collaboration in the event of crises.

■ Greater focus on security

The Riksbank takes an active and preventative approach in its security work. Security is considered a part of the bank's ordinary operations and is designed to support its main tasks under both usual and unusual circumstances.

It is vital for the Riksbank to have strong security for its activities. The Riksbank building contains items of great value and the operations involve handling sensitive information. The county administrative board has therefore assigned the Riksbank protected status. The aim of the Riksbank's security activities is to protect its employees, information, items of value, and property from all risks and threats, intentional and unintentional. This protection is also intended to cover other people and resources when these are present on the Riksbank's premises. The level of security should be such that it acts as a deterrent.

During the year the Riksbank put new systems for access control, alarm monitoring, CCTV, digital video recording and photo badging security solutions into operation. In addition the bank drew up extensive plans aimed at guaranteeing that it can also carry out its tasks in the event of a crisis.

FOUR SECURITY AREAS

The security unit is divided into four areas which are responsible for the following tasks:

■ Personal protection

The Riksbank's personal protection is designed to make its employees feel safe both at work and on business trips. This protection also covers external visitors and contractors that are located on the Riksbank's premises.

■ Information protection

Security for the Riksbank's and collaborating organisations' information is organised to enable the fulfilment of the bank's requirements for confidentiality, accessibility, correctness and traceability, as well as the fulfilment of legal requirements.

■ Property protection

Buildings, rooms and security transport vehicles are designed and equipped to minimise the risk of attacks and fire, as well as to enable quick, safe evacuation.

■ Business continuity planning

The Riksbank has laid foundations that will enable it to carry out its main tasks in the event of different kinds of crisis.

Summary of the Riksbank's security activities in 2002

The Executive Board decided upon a new guideline for the Riksbank's business continuity planning, which specifies the areas that must be operational at all times.

The first stage of a business continuity planning project was carried out. This involved an analysis of the requirements and risks in prioritised business areas. The next step is to prepare updated contingency plans, and this is due to be completed during 2003.

Some 50 employees completed training in information protection, and the classification for the Riksbank's protected status was upgraded.

Statistics on incidents in the field of information security:

- A total of 2258 viruses were stopped or blocked, and over 50 different kinds of virus were identified.
- A total of 294 attempts to hack into the Riksbank's systems were prevented.



A new system for staff access has been installed in the Riksbank's main entrance.

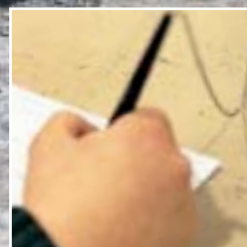


Bankomat



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■ More efficient cash management

During 2002 the Riksbank took further steps to rationalise its cash management activities. The bank will be reducing the number of its storage locations around the country, and discussions have been initiated with a view to transferring the operations to the commercial banks and other private operators. The change is in line with the Riksbank's ambition to focus on its main tasks.

The management of banknotes and coins is a process that involves a large number of different stages. Cash is transported from the Riksbank to four storage points around the country, after which it is delivered to the commercial banks and commercial sector. After circulation the cash is returned to the storage points where some counting and checking for authenticity is done by SKAB. Banknotes that are worn out are destroyed. Naturally the entire process is governed by extremely high standards for security and precision.

For several years now the Riksbank has been working at improving the efficiency of its cash management. A more rationally designed transport and storage system would enable savings to be made in the economy. The first step was taken in 1999 when the Riksbank transferred its cash management activities to its wholly-owned subsidiary, Pengar i Sverige AB. A number of rationalisations have since been performed within the scope of this company.

FOUR STORAGE POINTS

During 2002 the Riksbank took a decision to implement further measures. This involved reducing the number of the Riksbank's storage points for distri-

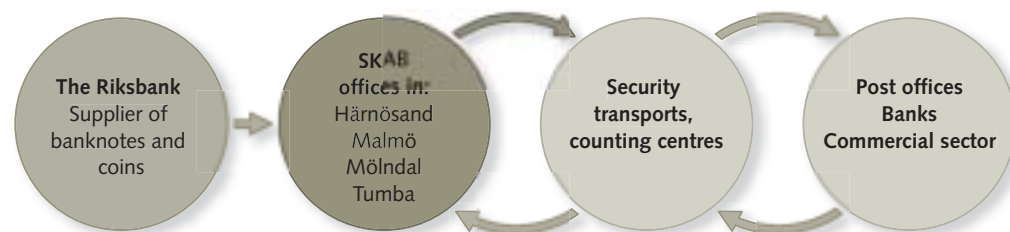
buting and receiving cash to and from the commercial sector from 13 to 4. The four points to be retained are those in Härnösand, Tumba, Mölndal and Malmö.

PRIVATISATION

The Riksbank also intends to transfer Pengar i Sverige AB to a private owner. To this end the company was divided into two entities in autumn 2002 - Svensk Kontantförsörjning AB and Pengar i Sverige AB. Svensk Kontantförsörjning will be responsible for holding the Riksbank's stocks of banknotes and coins at the four storage points, receiving and distributing cash from these stocks, value dating, and destroying worn out banknotes. The company will be working on assignments for both the Riksbank and the commercial banks. The Riksbank wishes to examine the possibility of transferring the entire company to private owners such as the commercial banks, for example. The purely commercial tasks have been centralized in Pengar i Sverige AB, and it is the Riksbank's intention to sell this company to private owners.

The planned changes have been checked regularly with the commercial banks and other participants in the cash market.

FIGURE 1
Outline of the new cash management structure



The use of banknotes decreased somewhat in 2002. Nevertheless, the use of cash is appreciably higher in Sweden than in our neighbouring Nordic countries.

■ International co-operation for the management of financial crises

The Riksbank participates in an extensive cross-border co-operation with both international organisations and other central banks. The work during the year focused to a large extent on the monitoring of financial stability and the management of financial crises.

The International Monetary Fund's (IMF) surveillance of economic and financial developments plays a pivotal role with regard to discovering threats to financial stability. This surveillance now includes performing a systematic analysis of the extent to which the countries comply with established norms and standards that enhance the transparency of the economy. The IMF has also been performing detailed studies for some years now of the functioning of the financial sector in various countries. So far, it has covered a total of 50 countries and the results of its study of Sweden were presented in August 2002. The aim of the IMF's surveillance is to discover vulnerabilities in a country that could spread to other countries and thus jeopardise stability in the international financial system.

IMF'S CRISIS MANAGEMENT

The most serious financial crises of recent years have been either attributable to, or closely associated with,

capital outflows from the countries in question. This in turn has led to the countries requiring more significant funding than before. At the same time there is greater uncertainty as to how quickly a country can regain access to borrowing in the international capital markets. This has brought to a head the question of how best to use the IMF's financial resources.

One aspect of the IMF's crisis management in 2002 was the very large loans that it granted to individual countries such as Turkey and Brazil. Further discussions were also held on how the costs of crises in individual countries could be minimised and distributed in a fair manner. The autumn meeting of the IMF's policy committee approved in principle the elaboration of a proposal for an international bankruptcy procedure. Countries would have recourse to this procedure in the absence of other solutions, thus enabling them to lessen their need for large IMF loans.

The IMF's role in poor countries has been extended in recent years to include contributing to reducing poverty and boosting growth. The Fund also provides debt relief to countries with a heavy debt burden.

The Riksbank's activities in IMF matters are co-ordinated with the Swedish Ministry of Finance and within the IMF constituency of Nordic and Baltic countries. IMF-related issues are also being co-ordinated within the EU more than before. This includes work on private sector involvement in the management of international financial crises.

THE EU

The implementation of the EU's Stability and Growth Pact, which aims to keep the development of government finances on a sound track, was discussed in the EFC in preparation for the ECOFIN Council's recommendations to the EU countries. The EFC also prepared new structures for drawing up financial legislation and for enhancing co-operation with regard to financial supervision and oversight of financial stability in the EU.

The work within the European System of Central Banks (ESCB) was dominated by the euro countries'

Contingency planning for a possible full participation in EMU

When the Riksdag (Swedish parliament) decided in 1997 that Sweden would not participate fully in monetary union from the start, it also decided that the greatest possible freedom of action should be maintained with regard to a possible future participation by continuing with the technical and practical preparations. The Riksbank and the financial sector in Sweden therefore work on such preparations with a view to maintaining this preparedness for action ahead of a possible Swedish entry.

The Riksbank's internal EMU preparations are focused on conducting all the technical and practical preparations required to enable the Riksbank to participate in the Eurosystem and complete the cash changeover in an efficient and reliable manner. The Riksbank's project aims to map out, co-ordinate and carry out the work as well as organise contacts with the ECB.

The collaboration within the financial sector is known as SIFS (Consultation and Information with the financial Sector). SIFS has written a series of reports which include descriptions of how the euro is used in Sweden, the different transition scenarios, the preparations and adjustment times required in the financial sector, how the cash changeover was carried out in the euro countries and how such a changeover should be organised in Sweden.

SIFS performed a new review in 2002 of the lead times required for a transition to the euro. The sector has declared itself in favour of a direct changeover, whereby banknotes and coins in kronor are replaced by euro on the same date as entry into monetary union.



In June 2002, the Riksbank received a visit from Roger Ferguson, Vice Chairman of the US Federal Reserve. Mr Ferguson spoke on a number of topics including the experiences gained in the wake of the terrorist attacks on 11 September 2001. From left: Lars Heikensten, Roger Ferguson and Göran Lind.

co-operation within the framework of the single monetary policy. The Riksbank was mainly involved in other areas where the ECB has a co-ordinating role, such as the payment system, accounting and legal matters. The assessment of economic policy developments in all EU countries was also discussed with the central banks of the EU countries outside the euro area. Furthermore the Riksbank took part in the ESCB's Banking Supervision Committee where it was involved in analysing trends in the banking system in the EU countries. The Riksbank also chaired a working group of the Banking Supervision Committee which drew up a consensus document between the central banks and supervisory authorities. The document aims to promote co-operation in the management of financial crises. In addition, a template is being developed for agreements on the exchange of information between central banks and supervisory authorities, as part of the management of financial crises.

A working group under the Riksbank's chairmanship was also involved during 2002 in efforts to enhance collaboration between the Nordic central banks. The aim is to co-ordinate the management of liquidity problems to the extent that they arise in cross-border banking groups in the Nordic region.



One of the speakers at the conference organised by the Riksbank and the Institute for International Economic Studies on monetary policy and financial markets in an enlarged EU was Professor Sebastian Edwards from UCLA in the United States. Professor Edwards presented advantages and disadvantages of various currency policy arrangements.

G10 AND BIS

Through Sweden's participation in the G10, the Riksbank had the main responsibility for a study completed in 2002 on how asset prices are affected by various microeconomic factors such as taxes and supervisory regulations. The G10 also prepared concrete proposals for clauses to be used in international bond contracts. The objective is to bring about more collective action by investors in connection with renegotiations of the terms and conditions of such loans. Among the other activities pursued by the G10 countries at the BIS, the preparation of new capital adequacy rules for international banks was particularly important. The central banks also focused on the further development of common principles for payments and securities transactions.

■ Research to promote a safer and more efficient payment system

The Riksbank conducts research on issues of importance for the bank's monetary policy and in other areas relevant to the bank's operations, e.g. financial stability. One of its current research projects is focused on measuring and analysing the credit risks of Swedish banks. The project plays an important part in the Riksbank's task of promoting a safe and efficient payment system.

One means of enhancing stability in the banking sector is through the capital requirements currently imposed on the banks. These requirements constitute minimum levels for the buffer capital held by the banks to cover future losses in their assets, e.g. loan losses.

The research department at the Riksbank has been carrying on a large-scale project for a number of years now that is centred on the measurement and analysis of banks' credit risks. The aim of the project is to improve the means for monitoring the Swedish banking system. Its basic idea is to make use of the unique conditions that prevail in Sweden for com-

piling correct, relevant data over long periods of time on the banks' lending to the corporate sector. Sweden's unique position can be attributed to the fact that Swedish banks have saved their historical information and are willing to make it available for research purposes. This makes it possible to construct models that are capable of quantifying, for instance, the effect of economic developments on banks' credit risks.

An initial study in the project illustrates the Basel Committee's proposals for new capital adequacy rules. One important component of the new regulatory framework is the considerably stronger link between the amount of buffer capital held and port-



Malin Adolfson and Tor Jacobson from the Research Department.

folio risk. According to the current Basel regulations, a bank is subject to the same capital requirements when making loans to companies, regardless of the companies' credit rating. In future, loans to high-risk borrowers will result in higher capital requirements and vice versa.

BUFFER CAPITAL AND PORTFOLIO RISK

By applying the new regulatory framework on a major Swedish bank's historical portfolio of limited companies during the years 1994 to 2000, we have calculated the level of the new capital requirements over time.

The new capital requirements show both the expected and desired behaviour. High values (16 – 20 per cent compared with 8 per cent according to the current regulations) were noted in the period 1994–95, the aftermath of the bank crisis. Subsequently there was a drop in capital requirements as the Swedish economy recovered, finally settling at extremely low values around the turn of the century (0.5 – 1 per cent).

The measure of the portfolio's credit risk displays a similar trend. This leads us to conclude that the Basel Committee has succeeded in its attempts to confirm the connection between buffer capital and portfolio risk even if further adaptation of the regulatory framework is required before it can be finally adopted. The study is an evaluation of the new regulatory framework but can also be seen as a proposal for a method or approach that can be used by supervisory authorities to evaluate banks' risk management systems.

INTERNATIONAL INTEREST

Over the past year the study has been presented on a number of occasions at academic conferences and institutions in Sweden and abroad, as well as at central banks such as the Federal Reserve Bank of Philadelphia. The Swedish banks have also shown interest by hosting a number of seminars. This reflects the Riksbank's aim of conducting research that is essentially academic in nature but that is also of interest and relevance for a wider public.

Monetary policy research

Monetary policy research has attracted interest in recent years from both academic researchers and more practically-oriented central bank economists. The Riksbank's research is focused on three main areas. The first is the development of theoretical models that are based on optimising behaviour in economic agents to better understand the transmission mechanism of monetary policy. The second area concerns the importance of the exchange rate for monetary policy, while the third deals with the formulation of monetary policy, e.g. how interest rate policy is affected by a desire for steady interest rate development.

In 2002 the research department initiated a project to specify and estimate a macroeconomic model for the Swedish economy. The equations of the model were devised with the help of individuals' and companies' decision problems and can be used for analysing various monetary policy issues. A modified version of the model may soon be used for analysing the interaction between the Swedish economy and the euro area.



Åsa Knudsen-Sterte (left) and Victoria Ericsson from the Monetary Policy Department at a conference on monetary policy.



■ New structure for the production of statistics

The Riksbank produces money and banking statistics, balance of payments statistics and statistics on turnover in the money and bond market and foreign exchange market. During 2002 the Riksbank laid the foundations for transferring certain statistical tasks to Statistics Sweden (SCB). This transfer will be carried out in 2003.

The statistics produced by the Riksbank provide a basis for analysing the development of the financial markets. This includes the impact of monetary policy, the stability of the payment system and structural developments in the financial markets.

Statistics are important for users in Sweden and abroad who follow and assess economic developments. SCB also uses the Riksbank's statistics. The balance of payments comprises an important basis for the National Accounts, and the financial market statistics are used for compiling the financial accounts.

TRANSFER OF TASKS TO SCB

During 2002 the Riksbank paved the way for the comprehensive changes that will be carried out to the statistical operations in 2003. The purpose is to concentrate the role of the Riksbank on its core business and to make the production work more efficient.

In the field of money and banking statistics, the collection and compilation will be carried out by SCB on behalf of the Riksbank as from April 2003. However, the Riksbank will retain responsibility for the statistics and participate in international work regarding methods and development issues.

In the balance of payments field, the system of reporting cross-border payments was abolished at the end of 2002. From now on, balance of payments statistics will instead be based on sample surveys, as the payment reporting provided an increasingly uncertain base for the statistics. Some of the statistics will be collected by SCB, particularly those that form

a base for the current account. The Riksbank will retain responsibility for the balance of payments, compile and publish the statistics, and collect the data for the financial account.

INTERNATIONAL HARMONISATION

The ECB and international organisations such as the IMF are important users of the statistics for which the Riksbank is responsible. In addition, the IMF is the primary body for setting standards in these statistical areas. The changes decided upon mean that the preparations for a possible full participation in EMU will be conducted by both the Riksbank and SCB.

The IMF has established a special standard for statistics known as Special Data Dissemination Standard (SDDS), the aim of which is to enhance the quality of statistics and thereby better enable the prevention of economic crises. Sweden, together with around 50 other countries, has adopted this standard and therefore undertaken to produce the economic statistics prescribed in the standard. The Riksbank co-ordinates the work in Sweden and the statistics are published regularly on the bank's website.

The value of goods exports rose approximately 1 per cent in 2002. Expanding markets included Russia, India and Hungary. As before, the euro area and the United States were Sweden's most important export markets.

■ In-depth analysis a requirement for the Riksbank's work

The Riksbank's objectives are to maintain price stability and to promote a safe and efficient payment system. This section describes how the bank conducts its forecasts and analyses, how decisions are prepared and what happens once decisions are taken and tasks performed.

The monetary policy process

The aim of inflation forecasts is to analyse whether there is a risk of inflation deviating from the target of 2 per cent. As monetary policy measures achieve full impact with a time lag of one to two years, monetary policy is usually based on a forecast of inflationary trends during this time horizon.

Monetary policy is discussed at meetings of the Executive Board that are timetabled in advance. The basis for these discussions is an assessment of the economic situation in Sweden and abroad. A total assessment is presented four times a year, when an Inflation Report is published. At other monetary policy meetings, the decision-making process is based on an update of the previous forecast.

THE INFLATION REPORT

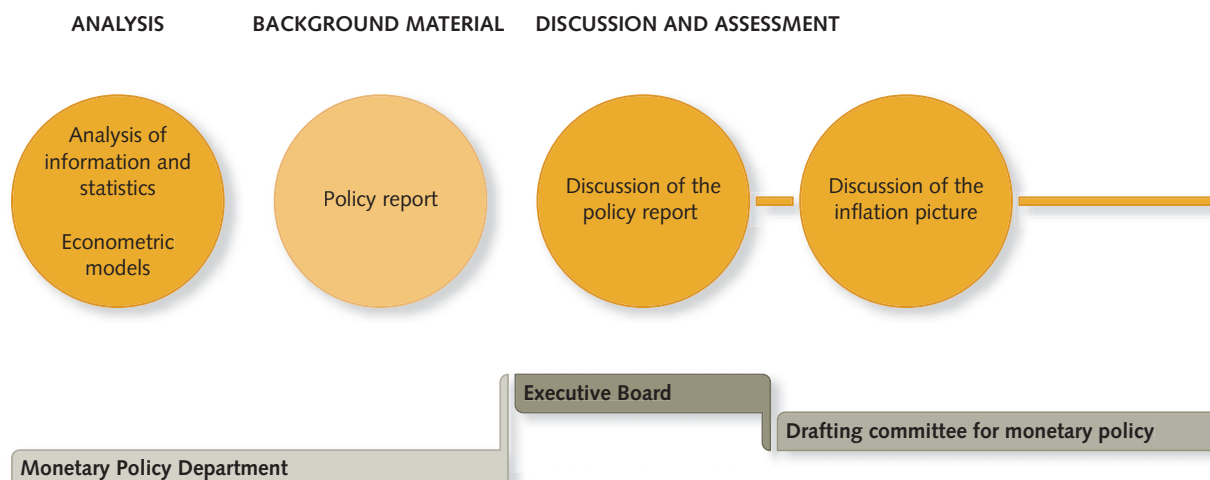
The process of producing an Inflation Report begins approximately six weeks before the report is presented. During this time general discussions are held both within the Executive Board and within the drafting committee for monetary policy. The latter consists of senior managers and advisors to the Executive Board, and is headed by the Executive Board member with responsibility for preparing monetary policy matters.

Subsequently the monetary policy department writes an internal policy report, which contains an overall inflation assessment based on the assumption that the repo rate will remain unchanged.

During the two weeks preceding publication of the Inflation Report, the Executive Board takes a more active part in the work. The internal policy report is transformed into an Inflation Report and is then discussed on a couple of occasions by the drafting committee for monetary policy and the Executive Board. These discussions concern both the inflation assessment and the overall issues to be considered in the report. The day before the Inflation Report is published, the Executive Board holds a monetary policy meeting. At this meeting the drafting committee for monetary policy presents the conclusions it has reached on the basis of the information available. The Executive Board then adopts the Inflation Report and decides whether or not the repo rate should be altered.

The Riksbank collects the background information for its decisions from a number of organisations including Statistics Sweden and the National

FIGURE 2
The process for producing an Inflation Report and interest rate decisions





The Inflation Report is presented at a press conference. From left: Hans Lindblad, Claes Berg and Lars Heikensten.

Institute for Economic Research as well as various international bodies. The information acquired by the bank's management and employees during travel within Sweden and abroad provides a useful complement, as do the Riksbank's statistics.

The inflation forecast is based on a total assessment of the economy, as most economic changes affect price trends. A couple of extensive econometric models are used to this end. The development of new methods is stimulated by the contacts that exist with internal and external researchers as well as with other central banks and international organisations.

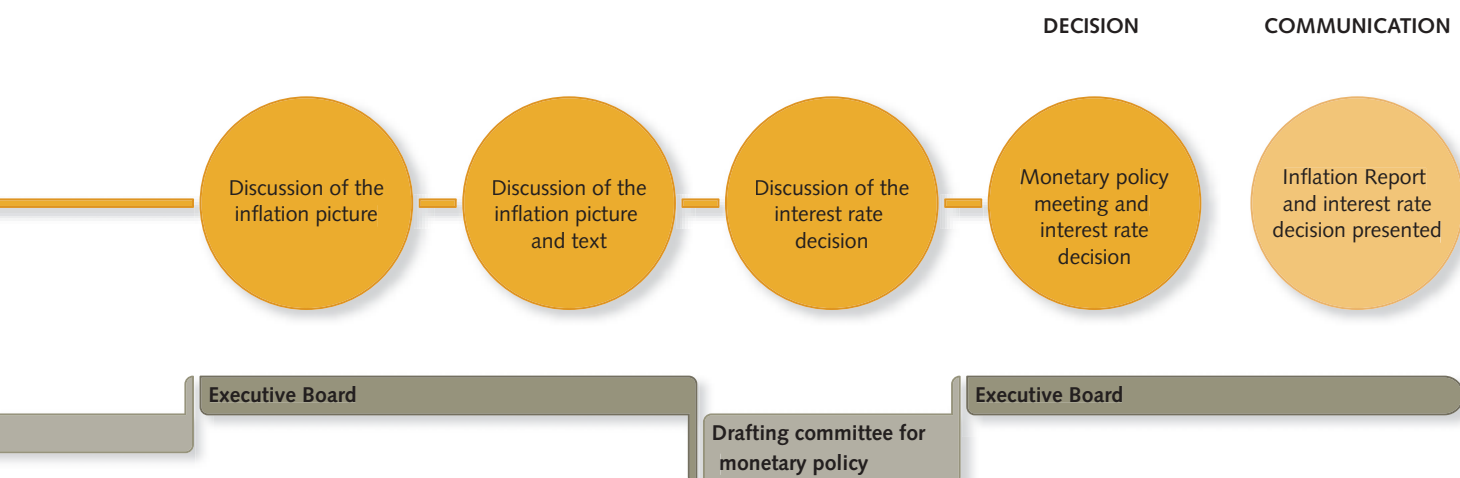
OPEN AND CLEAR COMMUNICATION

An important part of the monetary policy process is to present the bank's analyses and conclusions in an unambiguous, pedagogical manner to various interested parties. Respect for and confidence

in the Riksbank's work is based on the bank following a clear intellectual framework, observing the explicit rules of conduct and practising clear, open communication.

Decisions on the repo rate are published in a press release. A press conference is normally held in conjunction with the publication of an Inflation Report or when the Executive Board decides to change the repo rate.

Minutes are taken at the Executive Board's monetary policy meetings and these are published approximately two weeks after the meeting. The minutes, which contain a detailed account of the monetary policy discussion, attract great interest from the financial markets. They also form the basis of the General Council's evaluation of how the Executive Board members are fulfilling their assignment. If the view of any member differed from that of the majority, it is shown in the minutes.



In addition to the printed information given in the Inflation Reports, the minutes of meetings and press releases, the Executive Board members hold a large number of speeches with the aim of giving their views on economic developments and explaining the position taken by the Riksbank. Officers of the bank also present the Inflation Reports to various external groups such as banks and professional organisations.

Twice a year the publication of the Inflation Report coincides with a public hearing of the Riksbank Governor in parliament by the Riksdag Committee on Finance.

SETTING INTEREST RATES

The Riksbank governs the market's shortest rate, the overnight rate, with the aid of various financial instruments. The Riksbank offers the banks the opportunity to deposit and borrow at predetermined rates overnight, the deposit and lending rates. These are always 75 basis points (0.75 percentage points) above and below the repo rate respectively. As the banks can always deposit money in or borrow money from the Riksbank with one day's duration at known rates of interest, there is no reason for them to deposit at a lower rate than they can get from the Riksbank, or to borrow at a rate higher than the Riksbank's lending rate. In other words, this creates a floor and



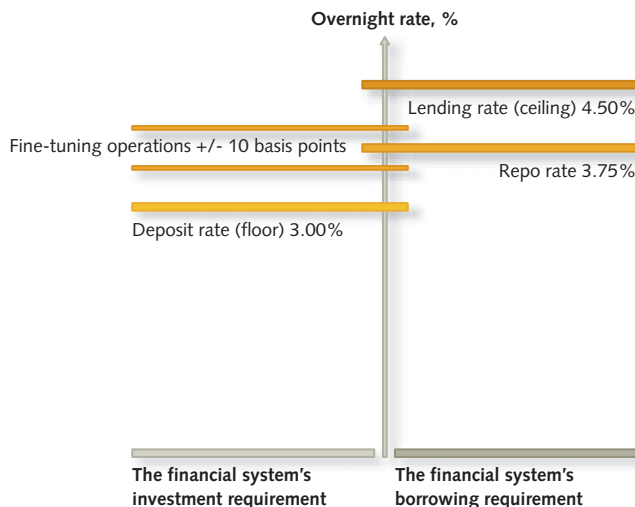
a ceiling (interest rate corridor) for the market's overnight rate.

Once a week the Riksbank uses what is known as its monetary policy repo transaction to signal where the overnight rate will be situated in the corridor. To stabilise the overnight rate, the Riksbank makes small adjustments on a daily basis depending on the banks' deposit and borrowing requirements during the day.

The Riksbank thus controls the market's overnight rate in practice. The short-term market rates (up to approximately one year) are strongly influenced by the expected development in the overnight rate, i.e. the Riksbank's repo rate. Interest rates with longer duration, e.g. ten years, are influenced in part by expectations of future inflation. These interest rates in turn affect economic activity and, ultimately, inflation.

FIGURE 3
The Riksbank's steering of the overnight rate

Note: The example refers to a repo rate of 3.75%, which was the level at the end of 2001.



HOUSEHOLDS AND COMPANIES

A decision to change the repo rate seldom comes as a surprise to the financial markets. Market players attempt to predict what decision the Executive Board will make, while it is the explicit aim of the Riksbank to avoid surprises. Clear, unambiguous information about the grounds on which monetary policy decisions are made enables market players to form their own opinion of the direction of monetary policy in



The traders in the Riksbank's dealing room follow and discuss developments on the world's financial markets. Main picture: Fredrik Johansson (foreground) and Fredrik Olsson. Small picture from left: Emelie Bagelius, Christian Ragnartz and Christer Nilsson.



the light of new information on, for example, economic activity. One consequence of this is that interest rates on the financial markets are often adapted to a change in the repo rate before this change is made.

FOREIGN EXCHANGE INTERVENTIONS

In addition to interest rate adjustments the Riksbank can adopt other measures to maintain price stability, such as foreign exchange interventions. Foreign exchange interventions are when the Riksbank buys and sells foreign currency in the currency market in exchange for Swedish krona with the aim of influencing the exchange rate. Such interventions are used with great restraint, however. The Riksbank maintains a state of preparedness for foreign exchange interventions via its foreign exchange reserve.

THE FOREIGN EXCHANGE RESERVE

The foreign exchange reserve comprises securities in foreign currency and special drawing rights with

the International Monetary Fund. The primary purpose of maintaining a foreign exchange reserve is to be prepared for foreign exchange interventions. In the event of a crisis, the reserve could also be used to provide support to Swedish banks. The Sveriges Riksbank's Act requires that the assets of the foreign exchange reserve be secure and liquid. For this reason the assets are invested mainly in treasury bonds that are easy to buy and sell if an intervention is to be made at short notice. When the requirements for security and liquidity are met, the assets are to be managed so as to yield the highest possible return given the risk level adopted by the Executive Board. The foreign currency reserve at the end of 2002 was invested in various interest-bearing securities in the following currencies: US dollars, euro, sterling and Japanese yen. Investment in shares is not permitted.

The assets are managed by the Riksbank's own asset managers. The managers form an opinion of how developments in the global economy and other factors could affect the financial markets. Based on this analysis the assets of the foreign exchange reserve are then invested so as to yield the highest possible return.

The analysis of financial stability

All trade in goods and services requires that payments can be made quickly and efficiently. It is therefore of great importance to the economy not only to safeguard the value of money but also to ensure that the payment system functions in a reliable, efficient manner.

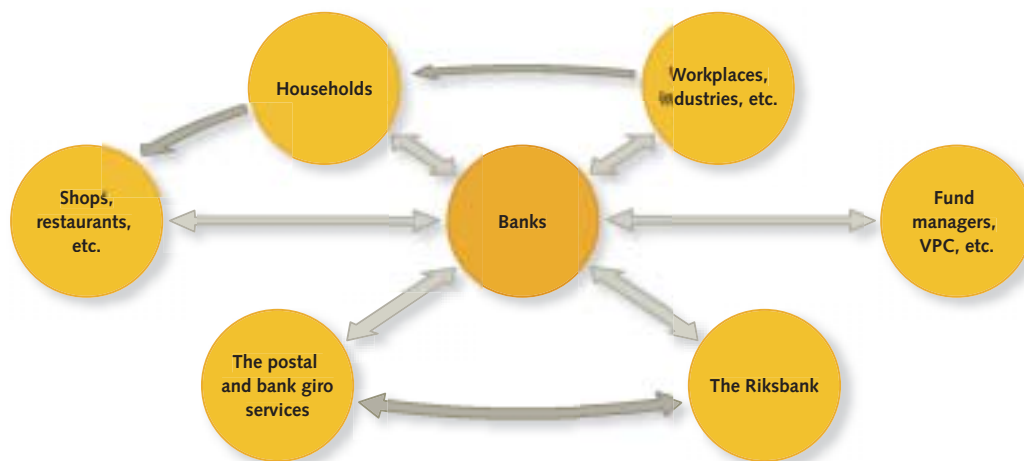
Banknotes and coins in kronor are legal tender in Sweden, and the Riksbank has a monopoly according to law on issuing them. The distribution of banknotes and coins to the general public is carried out mainly via the banks. Printing of banknotes, minting of coins and the distribution of banknotes and coins to banks and post offices is performed by the Riksbank's subsidiaries or independent companies. The Riksbank ensures that these tasks are conducted in a manner that is safe and efficient.

Nowadays the majority of payments are no longer made in cash, but through electronic transactions between accounts. The Riksbank's operational responsibility is limited in this regard to managing the system for interbank payments, known as the RIX system.

In addition to its operational tasks, the Riksbank also oversees the payment system. The purpose of this is to identify factors that might lead to a crisis which could seriously threaten the payment system.

Based on this analysis, the Riksbank attempts to induce banks, other operators in the financial markets and relevant authorities to take measures to reduce or eliminate systemic risks.

FIGURE 4
The payment system





FINANCIAL INFRASTRUCTURE

Technical systems that transfer payments in kronor and other currencies enable the flows of financial assets between different institutions and markets. Deficiencies in routines or in technical design can lead to inefficiency that is costly to society and that can even lead to systemic crises. Usually the markets function efficiently without intervention from the authorities. Sometimes, however, operators in the market choose solutions that are not the most efficient from a social perspective. The oversight work is therefore aimed at surveying and analysing possible sources of systemic risks and efficiency losses.

THE BANKING SYSTEM

A crisis in a major bank could cause problems for the entire Swedish payment system. This in turn could threaten financial stability. An important part of the Riksbank's oversight work therefore consists of regularly assessing the risks in the major Swedish banks.

The banks have an important function in society, including that of mediator of payments.

In order for a bank to be able to perform this role, it must be able to make payments to other banks. The bank must also be prepared to meet the general public's need for cash when making withdrawals

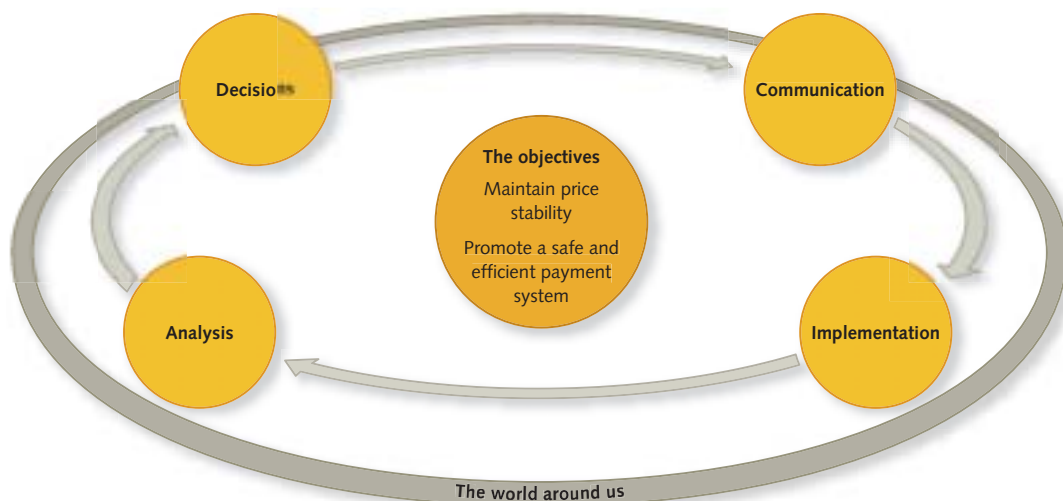
from their deposit accounts. This often results in deficits in the payment flows, as the assets, e.g. loans to the general public, have a longer fixed term than the liabilities.

If a large number of customers transfer money from their deposit accounts to accounts in other banks at the same time, the bank must immediately find another form of financing, either via loans in the private market or loans from the Riksbank. Borrowing from the Riksbank, through either intra-day or overnight loans, requires collateral in the form of securities, such as treasury bonds. Collateral is often not required in order to borrow in the market, but the bank must have a good credit rating.

Financial stability may be threatened for many reasons. The Riksbank's analysis and assessment of the risks in the Swedish banks therefore comprises different elements.

Malin Hübner Alpen and
Tomas Flodén from the
Financial Stability
Department.

FIGURE 5
The work process to meet the objectives



SOME EXAMPLES:

- Swedish households and companies are important borrower groups and are therefore capable of causing major loan losses for the banks. As a result, regular assessments are performed of households' and companies' ability to pay and their financial situation.
- The banks borrow large amounts from one another, which entails a risk that a crisis in one bank could spread to other banks. The Riksbank therefore monitors the liquidity and credit risks in these counterparty exposures regularly.
- Deficiencies in the banks' liquidity and credit risk systems heighten the risk of bank crises. The Riksbank therefore endeavours to increase knowledge of the systems used by the banks and to assess their strength.
- Normal fluctuations in economic activity do not usually cause any problems for the banks. The main threat to financial stability comes from unexpectedly rapid and prolonged declines in economic activity. The Riksbank's analysis is therefore focused on assessing the sensitivity of the banking system to an unexpected economic downturn, for example, or to a sudden fall in asset prices.
- If the banks' earning capacity deteriorates as a result of structural changes in the markets, their capacity to bear losses declines. This could lead to the banks increasing their risk-taking and is why the Riksbank assesses the long-term development of the banks' earning capacity.



Jenny Rolling and Anders Blomqvist from the Payment Systems Division of the Market Operations Department.

PREVENTING SYSTEMIC CRISES

The regulatory framework for financial institutions is the central government's most important means of maintaining financial stability. Due to the highly international ramification of the financial markets, these regulations must apply across national borders in order to be effective. The regulations for Swedish financial institutions are determined by the govern-

ment in consultation with Finansinspektionen (the Swedish Financial Supervisory Authority). The Riksbank influences the wording of the regulations, both by participating in various international working groups and by expressing its views when proposals are circulated for comments.

The Riksbank has operational responsibility for the supply of banknotes and the RIX payment system. Apart from this, the Riksbank's most important means for preventing a systemic crisis is the influence the bank can exert on financial institutions and other authorities. An open dialogue with financial institutions, the financial markets, Finansinspektionen and other authorities is thus a vital means of promoting stability. There is also regular co-operation and an exchange of information with the other Nordic central banks, as the Swedish banking groups have a large part of their operations in neighbouring countries.

THE FINANCIAL STABILITY REPORT

The Riksbank publishes its Financial Stability report twice a year. This includes an account of the most important conclusions reached from its regular monitoring activities. The report also contains more in-depth analyses in fields important to the efficiency and security of the payment system. The report is usually presented at a press conference, and the conclusions are discussed with Finansinspektionen and the banks. The report also forms a basis for speeches and lectures given by members of the Executive Board.

In anticipation of a potential financial crisis, the Riksbank maintains a state of preparedness in the form of a crisis organisation which is regularly kept up to date. Under extraordinary circumstances, the Riksbank can also provide banks and credit institutions with emergency liquidity on more favourable terms than usual in order to prevent a systemic crisis.



Lena Strömberg and Charlotta Hyléen from the Monetary Policy Department.

■ Organisation

The Riksbank is organised into eleven departments. The heads of department make decisions, or delegate the right to make decisions within their sphere of activity. They also ensure that matters to be decided upon by the Executive Board are prepared and presented. The Riksbank has three departments focusing directly on the bank's main objectives: the Monetary Policy Department, the Financial Stability Department and the Market Operations Department.

MONETARY POLICY DEPARTMENT

Responsible for the monetary policy analyses that form a basis for the decisions made to meet the price stability target. The department monitors and analyses price trends and is responsible for balance of payments statistics.

Head of Department: Anders Vredin

Number of employees: 71

FINANCIAL STABILITY DEPARTMENT

Responsible for analysing the stability of the financial system, which provides a basis for decisions taken to obtain the objective of a safe and efficient payment system. The department monitors and analyses the payment system infrastructure, major individual banks and cash management. In addition, the department is responsible for financial statistics.

Head of Department: Martin Andersson

Number of employees: 36

MARKET OPERATIONS DEPARTMENT

Implements monetary and foreign exchange policy measures with the aim of influencing the interest or exchange rate according to the monetary policy decisions taken. In addition, the department manages the Riksbank's assets in foreign currency and compiles statistics on the interest rate and foreign exchange markets. The department is also responsible for the operation of the Riksbank's payment system for large-value payments between the banks and for supplying banknotes and coins.

Head of Department: Mats Galvenius

Number of employees: 58

ADMINISTRATION DEPARTMENT

Responsible for office services, building maintenance, transport, security, planning and budgets, accounting, wages and financial systems, financial administration, personnel development and the supply of competence.

Head of Department: Agneta Rönström

Number of employees: 119

SECRETARIAT OF THE EXECUTIVE BOARD

Responsible for the administration of the meetings of the Executive Board and the General Council. The department also provides legal support and carries out investigations.

Head of Department: Björn Hasselgren

Number of employees: 22

RESEARCH DEPARTMENT

Pursues research in fields relevant to the Riksbank's operations and provides support to operations in other departments connected with research.

Head of Department: Tor Jacobson

Number of employees: 9

COMMUNICATIONS DEPARTMENT

Responsible for the bank's communications strategy and coordinates external and internal information. This includes press services, the Riksbank's website, translation, publications, library services, as well as lectures and seminars.

Head of Department: Leif Jacobsson

Number of employees: 18

INTERNATIONAL DEPARTMENT

Coordinates and develops the Riksbank's international work as well as assisting the Executive Board in international contacts.

Head of Department: Christina Nordh Berntsson

Number of employees: 11

INTERNAL AUDITING DEPARTMENT

Examines and evaluates the bank's operations and contributes to the work at the Riksbank being designed to function in an efficient and secure manner.

Head of Department: Ulrika Bergelv

Number of employees: 6

IT DEPARTMENT

Administers and maintains the bank's central IT resources, as well as developing and purchasing new systems.

Head of Department: Marie Rudberg

Number of employees: 69

RISK MANAGEMENT DEPARTMENT

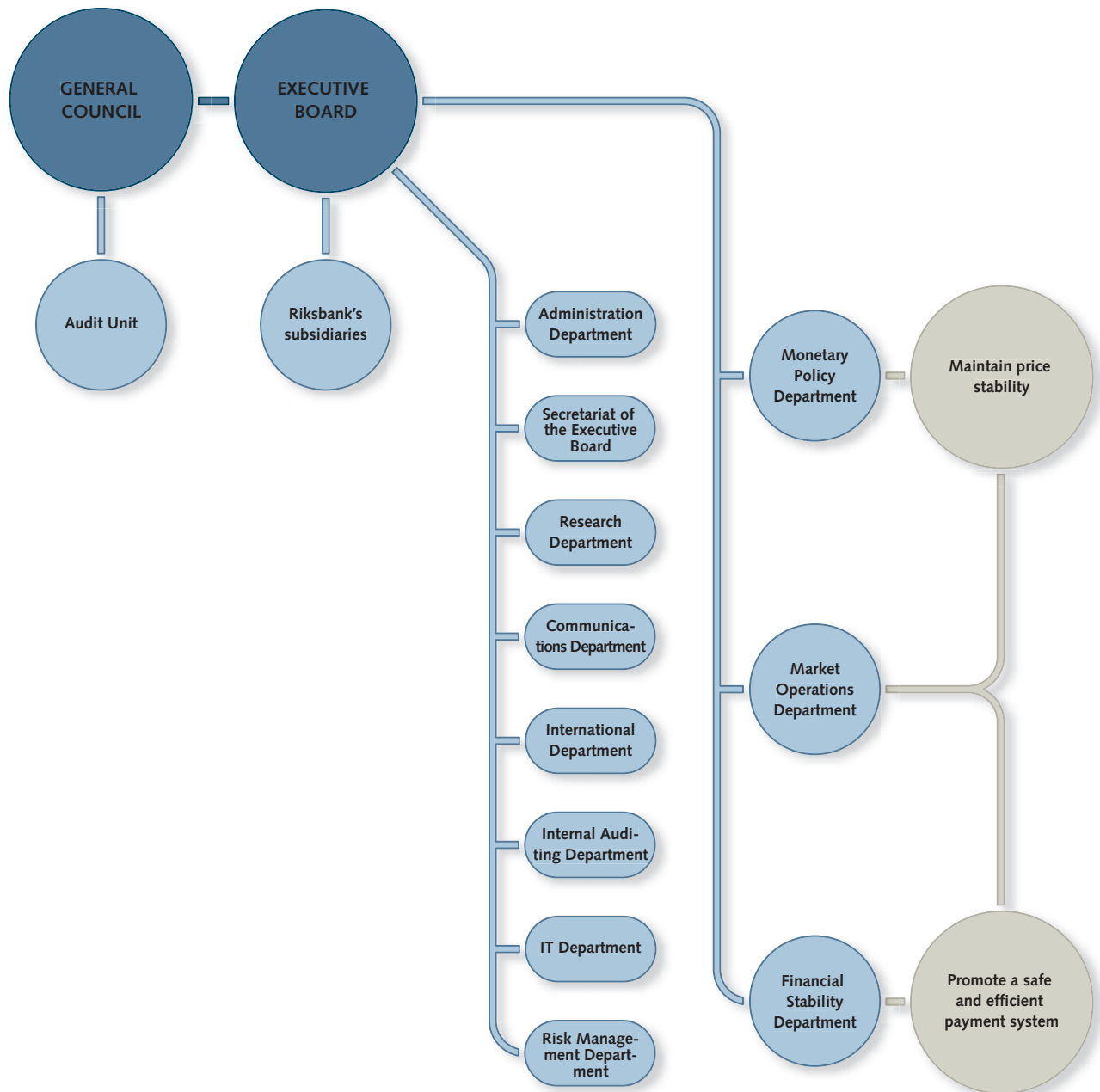
Responsible for the independent assessment of the level and results of the bank's financial risks. The department also develops methods for risk management.

Head of Department: Kristina Åkerberg

Number of employees: 6

The figures for total numbers of employees refer to full-time posts at the end of 2002, that is to say, the number of employees adjusted with regard to full-time or part-time posts.

FIGURE 6
The Riksbank's organisation



■ The Executive Board

The Riksbank is led by an Executive Board consisting of six members. The Executive Board is responsible for the bank's entire operations, that is to say, monetary policy, issues of financial stability, market operations and the payment system. In addition, the Executive Board has an overall responsibility for the bank's administration and sets the Riksbank's budget. The members are responsible for preparing matters concerning different areas of the bank's operations prior to board decisions.

The Executive Board makes decisions collectively at its meetings, which usually take place on alternate Thursdays. The Chairman and Vice Chairman of the General Council have the right to attend and speak at Executive Board meetings, but not the right to vote or make proposals. Prior to making a monetary policy decision of major importance, the Riksbank shall inform the Government. During 2002 the Board held 32 meetings, nine of which were monetary policy meetings.

The Executive Board's meeting on 24 September was held in Halmstad. This was for the purpose of obtaining views on the Riksbank's operations and being given the opportunity to discuss economic developments with representatives of trade and industry, as well as society, in the region.

During 2002, the members of the Executive Board have made around one hundred public speeches. These have concerned subjects such as current monetary policy and the economic situation, financial stability, EMU and the euro, development trends in the global economy and the structure of the Swedish economy.

The Executive Board presents a written report on monetary policy to the Riksdag Finance Committee twice a year. The Inflation Report was used as a report to the Riksdag in 2002 and supplemented with a public hearing in the Finance Committee attended by the Governor of the Riksbank.

With effect from 2003, the Executive Board consists of the following members:



Lars Heikensten



Eva Srejber

*Lars Heikensten,
mandate period six years from 1 January 2003*

Lars Heikensten is Chairman of the Executive Board and Governor of the Riksbank. He is responsible for preparing matters from the Secretariat of the Executive Board, legal issues and matters relating to the Internal Auditing Department. Mr Heikensten is a member of the ECB's General Council and a member of the board of the Bank for International Settlements, BIS. He is also Sweden's governor in the International Monetary Fund. He has previously worked as chief economist at Svenska Handelsbanken and at the Swedish National Debt Office, as well as being head of the economics department at the Ministry of Finance. Mr Heikensten has a PhD in economics and was Deputy Governor during the period 1995-2002.

*Eva Srejber,
mandate period six years from 1 January 2003*

Eva Srejber is First Vice Chairman and First Deputy Governor and responsible for preparing matters from the International Department, the IT Department and the Market Operations Department. She is also responsible for coordinating the preparations by the Riksbank and the financial sector for possible Euro-system participation. Mrs Srejber is the Governor's alternate on the ECB General Council and a member of the EU's Economic and Financial Committee. She has previously been head of the Riksbank's Monetary and Foreign Exchange Policy Department, a member of IMF's board and Deputy CEO responsible for EMU issues at Swedbank.



Villy Bergström



Lars Nyberg



Kristina Persson



Irma Rosenberg

*Villy Bergström,
mandate period six years from 1 January 2002*

Villy Bergström is Deputy Governor and has responsibility for preparing matters from the Research Department and the Communications Department and for the Riksbank's responses to submissions. Mr Bergström is a member of the OECD's WP3 committee. He is an associate professor in economics and has previously been Head of the Trade Union Institute for Economic Research (FIEF), member of SNS economic council and editor-in-chief of the Dala Demokraten newspaper.

*Lars Nyberg,
mandate period six years from 1 January 2000*

Lars Nyberg is Deputy Governor and responsible for preparing matters from the Financial Stability Department and the Risk Management Department. Mr Nyberg is Chairman of the Board of Svensk Kontantförsörjning AB and a member of the board at Crane AB (formerly AB Tumba Bruk). He has also been appointed by the Government to the board of Finansinspektionen (the Swedish Financial Supervisory Authority) and is the Riksbank's representative in the G10 cooperation at deputy central bank governor level. Mr Nyberg is an associate professor in economics and has previously been Deputy CE at Svenska Handelsbanken and Swedbank and CEO of Länsförsäkringsbolagens förening.

*Kristina Persson,
mandate period six years from 1 May 2001*

Kristina Persson is Deputy Governor and has responsibility for preparing matters from the Administration Department. Mrs Persson is the Governor's alternate at the IMF. She has an MBA and has been county governor in Jämtlands län as well as working at the Ministry of Finance, the Institute for Futures Studies and as TCO economist. She has also been a member of the Riksdag and member of the Riksdag Committee on Finance, a member of the Riksbank's General Council and a member of the European Parliament.

*Irma Rosenberg,
mandate period six years from 1 January 2003*

Irma Rosenberg is Deputy Director and responsible for preparing matters from the Monetary Policy Department and for matters concerning the ownership of the Riksbank's subsidiaries. Mrs Rosenberg is the Governor's alternate at the BIS. She has a PhD in economics and has worked as chief economist at the state-owned mortgage institution SBAB. She has also been chief economist for Sweden Post and Postgirot Bank. Prior to that she was head of research and head of forecasting at the National Institute of Economic Research and has also been head of the economic analysis group at the Riksbank 1976-86.

■ An attractive workplace focused on equality and diversity

The Executive Board of the Riksbank, managers and project managers have the task of contributing to the Riksbank's fulfilment of its operational targets and of providing inspiration and support to employees, as well as helping them develop. To this end, a management development programme was implemented for all managers during 2002. The programme's focus was on the role of leader, but also contained training in the concrete responsibility for personnel in terms of recruitment, working environment and equality.

During 2002 the work on making the Riksbank an attractive workplace also continued, with investment in competence development, equality, wage development and working environment.

Every year the Riksbank compiles a personnel

accounts report, as a complement to the financial accounts. This report enables the bank to follow up key ratios that provide an indication of whether employees' resources are being used in a way that fulfils the Riksbank's objectives. To enable work on



The area adjacent to the canteen provides a spontaneous meeting place for the Riksbank's staff. From left: Torbjörn Krook, Stefan Lindbladh, Mika From and Petra Nilsson from the IT Department.

a more preventive basis, the annual report has been supplemented with quarterly reports that provide an overview of sick leave and overtime.

The Riksbank has introduced subsidised household services as a benefit for employees with children under the age of eight years, to help create a balance in daily life between work and family.

EQUALITY AND ETHNIC DIVERSITY

The Riksbank endeavours to have groups with the greatest possible mix in terms of gender and ethnic background. All employees should have equal opportunity for promotion. The gender distribution is currently very even (47 per cent women and 53 per cent men). A wage survey has been carried out as part of the equality plan. Measures have been taken in cases where unreasonable differences have been observed.

During 2002 the Riksbank completed an opinion poll with a focus on ethnic variety. Its purpose was to gain a picture of the views held by employees on this issue. The results will form a basis for continued efforts.

COMPETENCE DEVELOPMENT

In a knowledge-intensive organisation like the Riksbank, competence development is particularly important. Many employees are highly educated and have considerable experience of working at the Riksbank or other workplaces. There are thus good opportunities for in particular younger, newly-recruited employees to develop in their daily work and through cooperation at national and international levels. In addition, there are internal courses at the Riksbank in appropriate subjects.

The Riksbank works constantly on improving and quality assuring its recruitment process. During 2002 the personnel turnover declined to half the level of 2001. Part of this explanation is the low mobility on the labour market, but it is probably also due to the success of the work to make the Riksbank a more attractive workplace.

WORKING ENVIRONMENT

Personal development talks, opinion polls and exit interviews are all used to form a picture of how em-

ployees perceive their work situation. In this way the Riksbank can identify areas for improvement and set goals for a better working climate. The surveys carried out in recent years indicate that results have improved in several areas, for instance, cooperation is better and objectives are perceived as clearer.

The prevention perspective in the Riksbank's working environment includes, for instance, extensive keep-fit activities, relaxation and information on nutrition. Members of staff also have access to a well-equipped gym and exercise room in the Riksbank building and all new employees are visited by an ergonomist who examines their work station.

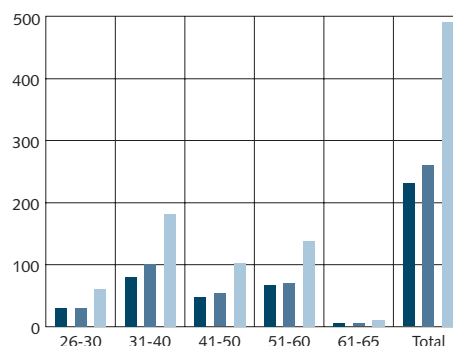


DIAGRAM 14
Age structure of the Riksbank's personnel, December 2002.
Number of employees

■ Women
■ Men
■ Total

Note: Average age 42, average length of employment 11 years, personnel turnover 10 per cent

Source: The Riksbank

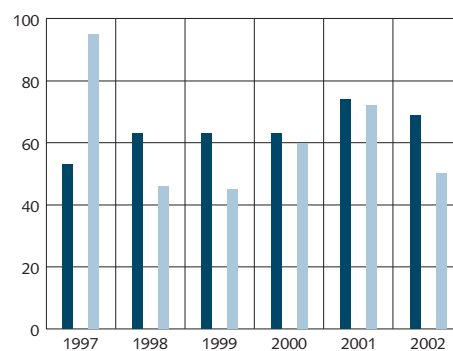


DIAGRAM 15
Personnel mobility.
Number of employees

■ New recruitment
■ Resigned

Note: Excluding temporary summer personnel
Source: The Riksbank

■ Working at the Riksbank

As in other knowledge-based organisations, the Riksbank's staff are its most valuable asset. It is their knowledge and commitment that determine whether or not the Riksbank is successful in its efforts to attain its operational objectives. Daily co-operation between colleagues, managers and external contacts gives rise to a valuable exchange of knowledge. Here, a number of the bank's employees tell us about their jobs and what it's like to work at the Riksbank.

The Riksbank's Market Operations department is responsible for Sweden's supply of banknotes and coins as well as for the RIX payment system. Pia Kronestedt is an adviser at the Cashier's Division while Maria Lundin works as a system administrator at the Payment Systems Division. Both find their work at the Riksbank to be stimulating, interesting and enjoyable. With only a couple of years' experience, Pia is a newcomer in comparison with Maria, who has been working at the bank for more than 20 years. Nevertheless, both fully agree that the Riksbank is an attractive place to work.

AVAILABILITY OF CASH

The Cashier's Division is responsible for ensuring that cash is available in society and that the Riksbank's valuables are stored in a safe manner. One of Pia's tasks at the Riksbank is to prepare for a cash change-over in the event that Sweden joins the euro.

A referendum on the euro will be held on 14 Sep-

tember 2003. In the event of a "yes" vote, the Riksbank will be responsible for ensuring that the change-over to the euro proceeds safely, smoothly and efficiently.

OVERSEEING THE PAYMENT SYSTEM

The Payment Systems Division is responsible for the payment system used by the banks in their daily operations. Maria Lundin develops and administers the payment system and is also responsible for its day-to-day oversight. Should a technical fault or unforeseen incident arise, it is Maria's responsibility to ensure that the bank's emergency routines are initiated quickly.

"If something happens, we have to be able to act quickly," says Maria.

In close co-operation with the IT department, Maria was actively involved in the development work that enabled a changeover to computerised payment systems. The first system was put into operation in 1986.



Pia Kronestedt



Maria Lundin

"The Riksbank has a social responsibility and this creates tremendous dynamism in our work. Should our operations fail to function properly, this would have an impact on society as a whole. The results of our work are tangible and are put into practice as opposed to just ending up on a shelf somewhere. The decision-making processes can be long sometimes, but that doesn't make it tedious in any way, and it's definitely a workplace that accommodates different viewpoints. The most enjoyable aspect of the job is participating in projects that enable the operations to develop and, of course, the international contacts which have been intensified in recent years," say Pia and Maria.

INTERNATIONAL CO-OPERATION

Georg Andrén has been deputy head of the Riksbank's International Department since September 2002. Georg is an economist and his first job after completing his studies in 1986 was at the Riksbank. He worked at the bank until 1988, after which he joined the Department of Economics at Uppsala University followed by various non-governmental organisations, the Ministry for Foreign Affairs and subsequently the Swedish International Development Authority.

"I am very pleased to be back at the Riksbank, which is a good place to work in many ways. The physical working environment is excellent, and there is a positive working atmosphere that allows scope for discussion between employees and management."

The International Department conducts an ongoing dialogue with the Executive Board of the Riksbank. The department has 11 employees of which around half work specifically with IMF issues.

"The IMF's role is underestimated and sometimes misunderstood, and it is my aim to clarify the picture of an organisation that has great responsibility for preventing and managing debt crises and thereby creating financial stability in poor countries. For example, the IMF has initiated the establishment of an international bankruptcy procedure for countries that are trapped in an untenable debt position."

"International co-operation is becoming increasingly important, and we need to build up a critical mass of knowledge and improve documentation of our work. This will make it easier to identify areas that require special attention and to focus on urgent issues. Quite simply, we are going to create an institutional memory."

FOCUS ON SECURITY

In line with the changing picture of potential threats around the world, security issues have been given higher priority at Swedish companies and authorities. Security work at the Riksbank is a continuous process, which aims to produce constant improvement and renewal.

"Our work involves prevention, detection and action. We have to be able to manage an unforeseen situation, which is why it is important that we always adopt a preventative approach in our work," says Martin Bergling, engineer and specialist in IT and information security.

ELABORATION OF GUIDELINES

An important aspect of the security work involves preventing unauthorised computer access and virus attacks as well as documenting the bank's security requirements. The activities also include following up the explicit requirements laid down by the ECB regarding how the security work should be performed.

"We conduct a continuous dialogue with the ECB and with representatives of the other EU countries. With technology becoming increasingly complex, we also need different kinds of skills for our security work, from specialists with technical expertise to broad generalists with an overall view of security problems. Another important part of the work is internal training. Over the coming years we are going to be holding half-day courses in basic information security every month. It is also our responsibility to check both IT solutions and compliance with regulations," says Martin.



Georg Andrén

"There was a good working atmosphere when I worked here before but now it is even better. This is partly due to the fact that we have an employer that has developed a framework for such issues, which is based on the belief that employees should thrive and develop and that they should be given the support they need."



Martin Bergling

"Working with security at the Riksbank is a special task and a great challenge. Awareness of the bank is extremely high and it is expected that our security should be the very best. There are many competent, committed people here, among both managers and colleagues."

■ The General Council

The General Council consists of eleven members and the same number of deputies. Its members are appointed by the Riksdag (the Swedish parliament) and have the same mandate period as members of parliament. The General Council elects its own Chairman and Vice Chairman.



Sven Hulterström and Johan Gernandt



Kenneth Kvist, Ingegerd Troedsson and Jörgen Andersson



Susanne Eberstein, Carin Lundberg and Kjell Nordström

The members of the General Council up to the 2002 parliamentary election were Sven Hulterström (Chairman), Johan Gernandt (Vice Chairman), Sinikka Bohlin, Jörgen Andersson, Kenneth Kvist, Mats Odell, Ingegerd Troedsson, Peter Egardt, Kjell Nordström, Susanne Eberstein and Carin Lundberg.

The deputy members were Reynoldh Furustrand, Stephan Tolstoy, Sven-Erik Österberg, Siv Holma, Göran Hägglund, Margaretha af Ugglas, Marianne Carlström, Hans Gustaf Wessberg, Lars U. Granberg, Marie Granlund and Sonia Karlsson.

The members of the General Council after the 2002 parliamentary elections are Jan Bergqvist (Chairman), Johan Gernandt (Vice Chairman), Sinikka Bohlin, Bengt Westerberg, Lennart Nilsson, Kjell Nordström, Mats Odell, Kenneth Kvist, Susanne Eberstein, Peter Egardt and Karin Pilsäter.

The deputy members are Carin Lundberg, Sonia Karlsson, Stephan Tolstoy, Camilla Dahlin Andersson, Lars U. Granberg, Marianne Carlström, Göran Hägglund, Siv Holma, Tomas Eneroth, Margaretha af Ugglas and Tommy Waidelich.

THE FUNCTIONS OF THE GENERAL COUNCIL

The General Council appoints the members of the Executive Board and establishes their salaries and other terms of employment. It also decides on the Rules of Procedure for the Riksbank, which state the framework for the bank's operations. In addition, the General Council determines the design of banknotes and coins.

The General Council can express opinions on submissions within its field of operations and, in consultation with the Executive Board, present proposals to the Riksdag and the government regarding statutory amendments or other measures in its field of responsibility. The Audit Unit of the General Council examines the work of the Riksbank and how the members of the Executive Board exercise their duties.

The General Council presents proposals to the Riksdag and the Parliamentary Auditors regarding the allocation of the Riksbank's profits.



Mats Odell, Sinikka Bohlin and Peter Egardt



Karin Pilsäter and Jan Bergqvist



Lennart Nilsson and Bengt Westerberg

ACTIVITIES 2002

During 2002, the General Council met on nine occasions. The Chairman and Vice Chairman have regularly attended the meetings of the Executive Board. The Council has received regular reports on operations from the Executive Board.

In June 2002 the General Council appointed Lars Heikensten the new Governor of the Riksbank and Eva Srejber the First Deputy Governor. In December, Irma Rosenberg was appointed Deputy Governor. During the course of the year, the General Council decided to issue a commemorative coin on the occasion of the 95th anniversary of Astrid Lindgren's birth. The Audit Unit has mainly inspected that the Rules of Procedure agree with the Instructions for the Riksbank, how the Executive Board members exercise their duties and the Riksbank's proposals for allocation of profits.

■ Psychological and experimental economics rewarded in 2002

Sveriges Riksbank's Prize in Economic Sciences in memory of Alfred Nobel was awarded in 2002 to Daniel Kahneman and Vernon L. Smith. They received the prize for their pioneering work in the fields of psychological and experimental economics.

Daniel Kahneman from Princeton University, USA; has introduced insights from psychological research into economic science. This has laid the foundation for a completely new area of research. The theory developed is called "prospect theory". A new generation of researchers in economics and finance has been enriched with a theory that has provided insights from cognitive psychology on intrinsic human motivation. His most important work concerns human behaviour when making assessments and making economic decisions under uncertainty.

Kahneman's research shows, for instance, that people take greater risks when they have a shortage of money or are facing bankruptcy.

Vernon Smith at George Mason University, USA, has laid the foundation for the research field of experimental economics and established experiments as essential tools for economists. Mr Smith has demonstrated the importance of alternative market institutions, e.g., how the revenue expected by a



Daniel Kahneman (left) and Vernon L. Smith were awarded Sveriges Riksbank's Prize in Economic Sciences in 2002 and shared the prize money of SEK 10 million.

seller depends on the choice of auction method. He has also spearheaded "wind-tunnel tests", where trials of new, alternative market designs – e.g., when deregulating electricity markets – are carried out in a laboratory environment. His work has been instrumental in establishing experiments as an essential tool in empirical economic analysis.

Sveriges Riksbank's prize in Economic Sciences was established in connection with the Riksbank's 300th anniversary in 1968. It is awarded every year to a person or persons in the field of economic sciences who have produced work of outstanding importance. The Royal Swedish Academy of Sciences appoints the prize-winner(s) according to the same principles as for the Nobel Prizes. The prize amount is also the same as for the Nobel Prizes, SEK 10 million, and is paid by the Riksbank. If there is more than one winner, the prize amount is shared equally between them.

■ Daniel Kahneman was born in 1934 in Tel Aviv, Israel (US and Israeli citizenship). He has a PhD from the University of Berkeley in 1961. Since 1993 he has been Professor of Psychology at Princeton University, NJ, USA.

■ Vernon L. Smith was born in 1927 in Wichita, Kansas, USA (US citizenship). He has a PhD from Harvard University in 1955. Since 2001 he has been Professor of Economics and Law at George Mason University, VA, USA.

Previous prize-winners

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

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

■ Annual accounts

ANNUAL ACCOUNTS

Directors' report	48
Accounting principles	53
Balance Sheet	54
Profit and Loss Account	55
Notes	56
Five-year overview	61
Subsidiaries	62
Allocation of profits	64
Auditors' report	65
Glossary	66
Publications	67
Submissions	68



■ Directors' report

OPERATIONS

The operations of the Riksbank are governed by Chapter 9, articles 13 and 14 of the Instrument of Government (part of the Constitution) and by the Sveriges Riksbank Act.

According to Chapter 9, Article 13 of the Instrument of Government, the Riksbank is "the Swedish central bank and an authority under the Riksdag".

The Riksbank is responsible for monetary policy. According to Chapter 1, article 2 of the Sveriges Riksbank Act (1988:1385; most recently amended version 2000:427), the objective of the Riksbank's operations is to maintain price stability. The most important monetary policy instrument for achieving this is the repo rate. The Riksbank shall also promote a safe and efficient payment system.

In 2001, the Riksbank signed an agreement with the American company Crane & Co regarding the sale of AB Tumba Bruk (now Crane AB). Crane & Co took over management and operation with effect from 1 January 2002. The sale of the shares will be finally regulated by February 2004 in accordance with the provisions in the agreement regarding mutual buy and sell rights between Crane & Co and the Riksbank. As part of the restructuring and the sale of Tumba Bruk, the Riksbank acquired two newly formed companies in December 2001. Eskilstuna Penningsmedja AB was acquired with the aim of buying the coin operations, including a property in Eskilstuna, from AB Tumba Bruk as of 1 January 2002. The coin operations were then immediately sold to the Finnish mint, Rahapaja Oy. Tumba Kulturfastigheter AB has the task of taking over the cultural heritage buildings, land and equipment at Tumba during a transitional period. The cultural heritage buildings, including the adjoining land, have been transferred to the National Property Board as of 1 October 2002, following the approval of the Riksdag and the Government. Thus, the company now only owns an area of land, which will be sold to an external party.

The Riksbank decided in April 2002 that its subsidiary PSAB Pengar i Sverige AB (now Svensk Kontantförsörjning AB) would supply four strategic storage points for receiving and supplying banknotes and coins. The commercial part of the operations, including the remaining storage points, was transferred to a subsidiary of Svensk Kontantförsörjning AB which was renamed Pengar i Sverige AB.

The restructuring of the cash supply system is aimed at providing future economic gains for society.

The Riksbank's role as exclusive agent for the Swedish National Debt Office's foreign exchange transactions ceased in 2002 as a consequence of a Government decision to allow the Debt Office to choose other counterparties than the Riksbank for its foreign exchange transactions.

ORGANISATION

According to Chapter 9, Article 13 of the Instrument of Government, the Riksbank is led by an Executive Board. This consists of six members. During 2002, 32 Executive Board meetings were held. The General Council appoints the members of the Executive Board and supervises the Riksbank's operations. During 2002, the General Council appointed a new Governor, a new First Deputy Governor and a new Deputy Governor for a period of six years with effect from 1 January 2003.

The General Council consists of eleven members and the same number of deputies. Following the parliamentary elections in autumn 2002, the Riksdag appointed new members to the General Council. The General Council met on nine occasions during 2002.

The Riksbank is organised into 11 departments. The total number of heads of department is 19; 14 of these are men and 5 are women. The total number of heads of division is 20; 13 of these are men and 7 are women. During the year four new heads of department were appointed, two of whom take up their new posts during 2003. In addition, two new deputy heads of department and two new heads of division were appointed, as well as a new chief legal counsellor.

The Riksbank has four subsidiaries: Svensk Kontantförsörjning AB (formerly PSAB Pengar i Sverige AB), Crane AB (formerly AB Tumba Bruk), Eskilstuna Penningsmedja AB and Tumba Kulturfastigheter AB.

PERSONNEL

The average number of full-time staff in 2002 amounted to 437 (427). The changeover from consultants to own employees accounted for an increase of eight full-time posts. At the end of 2002, 502 persons were employed at the Riksbank. In 2001, the corresponding figure was 471 persons. The number of full-time posts is not the same as the number of employees, because of part-time work.

Of the employees on 31 December 2002, 47 (48) per cent were women and 53 (52) per cent men. The personnel turnover was lower in 2002 than in 2001. During 2002 the Riksbank recruited 81 (74) persons externally and 11 (27) internally. Of the 50 (72) persons who left in 2002, 44 (65) left at their own request and 6 (7) retired.

The average amount of day's sick leave per employee amounted to 13.7 (12.5).

FINANCIAL STRUCTURE

The disposition of the Riksbank's balance sheet is primarily adapted to showing the monetary policy and exchange rate policy transactions. A simplified version of the Riksbank's balance sheet:

TABLE 1

The Riksbank's balance sheet as of 31 December 2002, SEK million

Assets		Liabilities	
Gold	18 210	Banknotes and coins in circulation ¹	106 984
Foreign currency reserve	150 594	Deposits from banks	87
Lending to banks	30 721	Other liabilities	4 716
Other assets	1 459	Total equity	89 197
Total	200 984	Total	200 984

Gold and foreign currency reserve

The gold and foreign currency reserve consists, as the name implies, of gold and securities denominated in foreign currency, as well as receivables from the International Monetary Fund. The primary purpose of maintaining a foreign currency reserve is to be prepared for foreign exchange interventions.

In the event of a severe crisis, the reserve could also be used to provide support to Swedish banks. Foreign exchange interventions are when the Riksbank buys and sells currency for Swedish krona with the aim of influencing the exchange rate.

Interventions on the foreign exchange market are primarily used when the exchange rate is fixed against other currencies, but they can also be used in the case of a floating exchange rate. Sweden has had a floating exchange rate since 1992, which has meant that the value of the krona in relation to other currencies is determined by the market². The Riksbank made no interventions during 2002.

The management of the foreign currency reserve is aimed at providing the highest return possible, given the risk level set by the Executive Board of the Riksbank. The foreign currency reserve, excluding special drawing rights with the IMF, is mainly invested in assets with a state guarantee in four currencies: US dollars (37 per cent), euro (37 per cent) British pounds (16 per cent) and Japanese yen (10 per cent). With effect from 2003, the Riksbank will also invest in Canadian and Australian dollars. During 2002, the foreign currency reserve increased marginally by SEK 2 896 million.

As part of its management of the foreign currency reserve, the Riksbank participates in automatic securities loan programmes with three custody banks, where these banks act on behalf of the Riksbank to perform repo transactions and lend the Riksbank's securities in exchange for other securities. The total nominal value with regard to securities on loan and in repo transactions amounted to SEK 47 012 million (SEK 43 212 million) on 31 December 2002.

The management of the gold reserve follows the principles in an agreement from 1999 between a number of central banks in industrial nations. This agreement involves, for instance, that no gold can be sold prior to 2004 and that only a limited amount may be lent out. The Riksbank therefore only lends out parts of its gold holdings.

¹ Unlike most central banks, the Riksbank also issues coins.

² It is the government that determines what exchange rate system Sweden will follow, while the Riksbank determines how it shall be applied.

Deposits from and lending to the banks

The banks' borrowing requirements from the Riksbank depend partly on the general public's willingness to hold banknotes and coins. Most of the lending to banks is through the refinancing transactions known as monetary policy repos. A monetary policy repo means that the Riksbank supplies liquidity by buying securities from the banks and at the same time agreeing to sell back the securities to the banks after a set period of time (among market operators this is known as a reversed repo). The Riksbank then receives its money back and the securities are returned to the original owners. The duration is usually one week. The decision on how much liquidity should be supplied or withdrawn over the coming week is based on a forecast of the payments or flows made between the Riksbank and the banks and which affects the items in the Riksbank's balance sheet.

The item Main refinancing operations have declined by SEK 35 899 million over the year. This decline is largely due to the extra dividend payment and the normal dividend payment to the Treasury, totalling SEK 27 300 million, being financed through a reduction in the monetary policy repo. In addition to lending via repos, there is a certain amount of deposits and lending to banks via their accounts with the Riksbank.

Banknotes and coins in circulation

The volume of banknotes and coins in circulation is determined by demand from the general public. In nominal terms, the volume of banknotes and coins in circulation declined between the end of 2002 and the previous year by SEK 127 million. As in previous years, the volume showed seasonal variations. The general public's propensity to hold banknotes and coins normally increases in connection with public holidays, for instance over the Christmas period.

Total equity

The size of equity increases when the Riksbank's market operations make a profit and declines when the reverse occurs. The Riksbank's total results include the increased or decreased value of the foreign currency reserve as a result of developments in the krona exchange rate. The exchange rate effects are conveyed to the contingency fund. Of the Riksbank's profits, 80 per cent of the average result over the past five years, including exchange rate effects, is

transferred to the Treasury and the rest is put in funds. The dividend paid in 2001 was SEK 7 300 million. In addition to the normal dividend payment, parliament decided that for 2001 an extra allocation of SEK 20 000 million should be paid to the Treasury, as it was for 2000. All in all, total equity, that is to say, the items balancing account, equity capital and result for the year, declined by SEK 27 371 million during 2002.

The overall objective of the Riksbank's operations is not to generate profit; the result that arises is the consequence of the Riksbank's tasks as a central bank. The Riksbank's net revenue for 2002 amounted to a loss of SEK 71 million (profit of SEK 19 277 million).

The result reported by the Riksbank can fluctuate considerably, mainly due to the price and exchange rate effects arising when the foreign currency reserve is recorded at market values. This is shown in the table below.

TABLE 2

The Riksbank's results over the past five years, SEK million

	2002	2001	2000	1999	1998
Interest income	7 220	9 197	9 572	8 347	8 781
Price effect	6 670	269	5 131	-6 328	4 341
Exchange rate effect	-13 161	9 133	6 224	2 038	9 685
Gold valuation effect	774	2 008	654	940	-
Other expenses	-1 574	-1 330	-1 272	-1 072	-944
Result for the year	-71	19 277	20 309	3 925	21 863

The Riksbank's net revenue for 2002 amounted to a loss of SEK 71 million (profit of SEK 9 197 million). During the year 2002 interest rates in the USA, the Euro area, Japan and the UK have fallen. In total, this has had a positive price effect of SEK 6 670 million. This effect has been counteracted by a negative exchange rate effect of SEK 13 161 million, which arose when the krona appreciated against all currencies in the foreign currency reserve during 2002. The gold valuation effect amounted to SEK 774 million and consists of unrealised results with regard to the change in market value of the gold holdings in 2002.

Other expenses consists mainly of expenses for banknotes and coins, staff costs and administrative expenses. In total, expenses amounted to SEK 1 574 million (1 330).

One per cent higher/lower security interest rates at the year-end would have deteriorated/improved the result (the price effect) by approximately SEK 7 000 million and a 10 per cent stronger/weaker krona would have deteriorated/improved the result (exchange rate effect) by approximately SEK 14 700 million.

FINANCIAL RISK MANAGEMENT

Financial operations generate risks and the management of these forms a natural and essential part of operations. The Riksbank is exposed to risks in the management of assets such as the foreign currency reserve, in the implementation of monetary policy and during transactions in the payment system. The risks can be divided into: prestige risks, credit risks, liquidity risks, market risks and operational risks. The Riksbank is constantly developing its methods in the field of risk management with the aim of managing these risks in accordance with good market practice.

There is responsibility for managing, checking and reporting the Riksbank's financial risks at several different levels. The ultimate responsibility for the Riksbank's operations rests with the Executive Board, which also establishes the regulations for the management of the gold and foreign currency reserve on the basis of the provisions in the Sveriges Riksbank Act. The Drafting Committee for the Riksbank's Financial Risks discusses issues relating to risk policy, risk levels, risk limits and evaluation. Each head of department is responsible for ensuring that the risks in his or her own operations are dealt with in a satisfactory manner on a daily basis. The Risk Management Department is responsible for independent risk management. In addition, the Riksbank's Internal Auditing Department examines and assesses the efficiency and integrity of the risk management.

Prestige risks refer to risks that the Riksbank's reputation will be negatively affected as a result of the way that financial operations are conducted. This risk can be limited by the Riksbank having a well-developed risk management process that includes guidelines for the staff's ethical behaviour as well as quality requirements for the bank's counter parties.

Credit risk is the risk of unexpected losses as a result of the Riksbank's counter parties being unable to meet their commitments to the bank. To limit the Riksbank's counter party risks, qualitative (for in-

stance, credit ratings) and quantitative requirements are made of the Riksbank's counter parties and of the collateral (securities) presented to the Riksbank. Credit ratings from established ratings institutes are used to assess the credit standard of the collateral (debt instruments) or the counter party respectively in both monetary policy operations and the management of the foreign currency reserve. In the management of the foreign currency reserve, the amount invested with each counter party is limited by the counter party's credit rating and equity capital. The maximum permitted counter party exposure is expressed as a percentage of the foreign currency reserve's market value.

Liquidity risk is the risk that the Riksbank will not be able to meet its payment obligations immediately. The Riksbank retains a level of liquidity that means it is prepared for both regular and unforeseen payment obligations. To further reduce the liquidity risk, the Riksbank invests in instruments for which there are large, liquid markets, as well as investing in different currencies and on different markets.

Market risk is the risk of unforeseen losses on the Riksbank's assets as a result of changes in interest rates and exchange rates. Interest rate risk is limited by the interval for the modified duration of the foreign currency reserve³, 4 to 6.5 per cent, which is set by the Executive Board. The profit and risk levels for the respective portfolios are assessed daily against a benchmark portfolio. Foreign exchange risk is managed by the Riksbank investing in four different currencies⁴ with a limited internal correlation. The distribution between these currencies is fixed. These risk measures are supplemented by Value-at-Risk analyses⁵ (VaR) and various forms of stress tests. The Riksbank's investment decisions are based on a conservative risk assessment.

³ Modified duration here refers to how many per cent the portfolio loses in value if the interest rate rises by one percentage point.

⁴ US dollars, Euro, British pounds, Japanese yen. With effect from 2003, the Riksbank will also invest in Canadian and Australian dollars.

⁵ VaR is a statistical method to express the maximum potential loss that will arise during a given period with a particular probability.

Operational risk is the risk of unexpected losses as a result of deficiencies in administrative routines or systems, inadequacies in internal control or insufficient knowledge among employees. These risks are limited by employing knowledgeable and risk-conscious personnel, having clear and well-known internal regulations and separate areas of responsibility. In addition, all business transactions are underpinned by appropriate legal documentation.

The Riksbank, like the financial sector as a whole, works continuously on improving the methods for measuring and following up risks. This work involves co-operation with other central banks and financial institutions. During 2002 the Riksbank decided to acquire a joint system to provide support for the entire flow of financial transactions. The Riksbank's own development work during 2003 will be primarily aimed at developing system support for both the management of the gold and foreign currency reserve and the implementation of monetary policy. The analysis of the results of the gold and foreign currency reserve management shall be broken down by market factors with a higher periodicity, which will improve the quality of the investment decisions. This will lead to the Riksbank increasing the maximum yield as far as possible, taking into account the existing limitations. Correct management of the financial risks will contribute to strengthening the Riksbank's independence and reputation.

■ Accounting Principles

The balance sheet and the profit and loss account for the Riksbank have been compiled as provided for in the Sveriges Riksbank Act and in accordance with the Accounting Instruction that the Executive Board has approved for the Riksbank.

CHANGES IN ACCOUNTING PRINCIPLES

The accounting principles have not been changed during 2002.

REPORTING OF MARKET-LISTED ASSETS

The Riksbank's market-listed assets are reported in the balance sheet at the current market price. Receivables and liabilities in foreign currencies are valued at the buying rate on the balance sheet date. Accrued interest is included in the market value for interest-bearing assets and liabilities.

Realised and unrealised gains and losses in foreign currency are credited or debited to the net operating profit/loss under the item "Net result of financial transactions".

This item also includes valuation of any existing forward positions, as well as realised and unrealised exchange rate gains or losses on securities.

REPORTING OF BUSINESS TRANSACTIONS

Business transactions are reported at the time when the parties exchange risks and rights. For money, bond and foreign exchange transactions, this involves trade-day accounting. Lending and borrowing transactions, including repo transactions, are booked on the settlement date.

REPO ACCOUNTING

A repo is an agreement to sell assets such as securities and gold and simultaneously undertake to buy back equivalent assets at a specified date in the future.

These repurchase agreements are reported as loan transactions and therefore do not affect the holdings of securities and gold.

Assets pledged by the Riksbank as collateral for repos are still included in the accounts and valued in accordance with the rules for other holdings of securities and gold by the Riksbank. The equivalent of the purchase price is registered as a receivable.

Assets received by the Riksbank under reverse repos are not included in the accounts because they constitute loan collateral. The equivalent of the purchase price is registered as a receivable. The difference between the two payments in a repo (spot and forward) is treated on an accrual basis over the duration of the repo.

Transactions carried out within the framework of agreements on automatic repos are only reported in the balance sheet if collateral is pledged in the form of cash for the entire duration of the transaction.

ACCOUNTING FOR TANGIBLE FIXED ASSETS

The Riksbank's tangible fixed assets are booked at acquisition value and depreciated as planned. Write-downs are made for depreciation that is considered to be permanent. Write-ups are only allowed if the asset has a reliable and lasting value that significantly exceeds the book value. Buildings are depreciated over a period of 50 years, other fixed assets over 5-15 years. Inventories are written off over 3-7 years. In certain cases, personnel costs for internal development work on IT investments are included in the asset's acquisition value.

■ Balance Sheet SEK MILLION

54

SVERIGES RIKSBANK 2002

Assets	NOTE	31-12-2002	31-12-2001
Gold	1	18 210	17 436
Claims on residents outside Sweden denominated in foreign currency			
Receivables from the IMF	2	14 306	13 293
Balances with banks and security investments	3	136 288	134 405
		150 594	147 698
Lending to monetary policy counterparties denominated in SEK			
Main refinancing operations	4	29 219	65 118
Fine-tuning operations	5	1 415	3 988
Marginal lending facility	6	87	29
		30 721	69 135
Other assets			
Tangible fixed assets	7	455	406
Financial assets	8	382	617
Off-balance sheet instruments	9	–	–
Accruals and deferred expenditure	10	13	4
Claims for securities settlement proceeds	11	365	–
Other assets	12	244	236
		1 459	1 263
Total assets		200 984	235 532
Liabilities and capital			
	NOTE	31-12-2002	31-12-2001
Banknotes and coins in circulation			
Banknotes	13	101 979	102 367
Coins	14	5 005	4 744
		106 984	107 111
Liabilities to monetary policy counterparties denominated in SEK			
Deposit facility	15	87	48
Fine-tuning operations	16	–	–
		87	48
Liabilities to residents outside Sweden denominated in SEK			
	17	207	161
Liabilities to residents in Sweden denominated in SEK			
	18	–	2 204
Liabilities to residents outside Sweden denominated in foreign currency			
	19	356	3 549
Counterpart of special drawing rights allocated by the IMF	20	2 939	3 271
Other liabilities			
Off-balance sheet instrument	21	17	176
Accruals and deferred income	22	6	9
Liabilities on securities settlement proceed	23	544	–
Other liabilities	24	647	2 435
		1 214	2 620
Balancing account and capital			
Balancing account	25	26 325	26 401
Capital	26	62 943	70 890
		89 268	97 291
Result for the year		-71	19 277
Total liabilities and capital		200 984	235 532

Memorandum items, see Note 39.

■ Profit and Loss Account SEK MILLION

	NOTE	2002	2001
Interest income	27	7 220	9 197
Interest expense	28	-206	-445
Net result of financial operations	29	-5 717	11 410
Fees and commissions income	30	10	11
Fees and commissions expense	31	-3	-4
Income from equity shares	32	39	35
Other income	33	4	11
Total net income		1 347	20 215
Staff costs	34	-337	-279
Administrative expenses	35	-216	-211
Depreciation of fixed assets	36	-69	-63
Banknote and coin expenses	37	-322	-332
Other expenses	38	-474	-53
Total		-1 418	-938
Total expenses		-71	19 277

Notes

SEK MILLION

NOTE 1 Gold

	31-12-2002	31-12-2001
Quantity		
Troy ounces (million)	5.96	5.96
Price		
USD per ounce	347.85	277.25
SEK/USD	8.78	10.55
Book value	18 210	17 436

The Riksbank holds 5.96 million ounces (troy/oz) of gold, which is equivalent to 185.4 tonnes.

NOTE 2 Receivables from the IMF

	31-12-2002	31-12-2001
Special Drawing Rights	1 569	2 076
Reserve position in the IMF	12 479	10 932
Other receivables	221	246
Accrued interest	37	39
Total	14 306	13 293

The Riksbank holds special drawing rights of SDR 132 million. Sweden's total capital contribution (quota) to the IMF amounts to SEK 28 462 million (SDR 2 395.5 million) and is booked net of the IMF's accounts for Swedish kronor as the item Reserve position in the IMF.

The item Other receivables refers to an interest-free deposit with the IMF as manager of contributions to the IMF's share of the debt relief initiative HIPC (Heavily Indebted Poor Countries) and to the Fund's concessional lending. The deposit of a total of SDR 18.6 million shall be repaid on 1 January 2019.

NOTE 3 Balances with banks and security investments

This item consists mainly of foreign treasury papers and state-guaranteed securities as well as assets in foreign banks, such as deposits and nostro accounts. The securities are denominated in US dollars, Euro, British pounds and Japanese yen. The Target/E-RIX balanced is also reported net here.

NOTE 4 Main refinancing operations

The Riksbank's regular monetary policy repo operations are reported here.

This decline is largely due to the extra dividend payment and the normal dividend payment to the Treasury in 2002, totalling SEK 27 300 million, being financed through a reduction in the monetary policy repo.

NOTE 5 Fine-tuning operations

This item is used to report lending with the aim of fine tuning liquidity in the financial system.

NOTE 6 Marginal lending facility

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

NOTE 7 Tangible fixed assets

	31-12-2002	31-12-2001
Properties		
Acquisition value	399	324
Accumulated depreciation	-107	-101
Book value properties	292	223
Machinery and equipment		
Acquisition value	436	430
Accumulated depreciation	-273	-247
Book value machinery and equipment	163	183
Total	455	406

At the end of 2002, the Riksbank owned three properties, which are located in Stockholm and Gävle. This year's increase in the acquisition value of the properties mainly refers to additional expenditure for conversion of the head office.

NOTE 8 Financial assets

	31-12-2002	31-12-2001
Shares and participation rights		
Crane AB (formerly AB Tumba Bruk) 860 000 shares with a par value of SEK 100 each	43	43
Svensk Kontantförsörjning AB (formerly PSAB Pengar i Sverige AB) 150 000 shares with a par value of SEK 100 each	15	250
Eskilstuna Penningsmedja AB 1000 shares with a par value of SEK 100 each	0	0
Tumba Kulturfastigheter AB 1000 shares with a par value of SEK 100 each	0	0
Swift 33 shares with a par value of EUR 125 each	0	0
BIS 16 021 shares with a par value of 2 500 gold francs each	267	267
European Central Bank 5% of 2.6537% of the total participation rights	57	57
Total	382	617

On 19 December the Riksbank made a shareholder's contribution of SEK 200 million to Svensk Kontantförsörjning AB, which initially increased the book value.

This shareholding has since been written down, for reasons of prudence, by SEK 435 million (SEK 50 million) to a value corresponding to the nominal value of the shares. The shareholding in Crane AB (formerly AB Tumba Bruk) has not been written up to a value corresponding to the company's equity, also for reasons of prudence. During 2002 the Riksbank also made a shareholder's contribution of SEK 1 million to Tumba Kulturfastigheter AB, primarily to cover the company's expenditure for stamp duty.

NOTE 9 Off-balance sheet instruments

Off-balance sheet instruments with a positive net market value are reported here.

NOTE 10 Accruals and deferred expenditure

Prepaid expenses and accrued income that do not relate to interest-bearing assets and liabilities are reported here.

NOTE 11 Claims on securities settlement proceeds

Claims on securities settlement proceeds refers to settlements for securities that have been sold but where payment has not yet been received.

NOTE 12 Other assets

This item consists mainly of loans to employees of the Riksbank and Svensk Kontantförsörjning AB (formerly PSAB Pengar i Sverige AB), SEK 200 million (SEK 188 million).

NOTE 13 Banknotes

The value of banknotes in circulation, by denomination:

	31-12-2002	31-12-2001
1 000 kronor	46 920	48 358
500 kronor	42 046	40 727
100 kronor	10 025	10 371
50 kronor	1 122	1 096
20 kronor	1 556	1 504
10 kronor	230	231
5 kronor	80	80
Total	101 979	102 367

NOTE 14 Coin

The value of coins in circulation, by denomination:

	31-12-2002	31-12-2001
10 kronor	1 921	1 808
5 kronor	1 113	1 064
2 kronor	8	8
1 kronor	1 108	1 052
0.50 kronor	263	248
Commemorative coins	592	564
Total	5 005	4 744

NOTE 15 Deposit facility

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

NOTE 16 Fine-tuning operations

This item is used to report deposits for the purpose of fine tuning liquidity in the financial system.

NOTE 17 Liabilities to residents outside Sweden denominated in Swedish kronor

Accounts in Swedish kronor that the Riksbank holds on behalf of other central banks and international organisations are reported here.

NOTE 18 Liabilities to residents in Sweden denominated in foreign currency

Accounts in foreign currency that the Riksbank holds on behalf of the Swedish National Debt Office are reported here for the year 2001.

NOTE 19 Liabilities to residents outside Sweden denominated in foreign currency

Amounts corresponding to purchase amounts received in foreign currency for deposit repos are reported here.

NOTE 20 Counterpart of special drawing rights allocated by the IMF

The Riksbank's liability corresponding to the special drawing rights allocated by the IMF is reported here. The accumulated amount granted totals SDR 246.5.

NOTE 21 Off-balance sheet instruments

Off-balance sheet instruments with a negative net market value are reported here.

NOTE 22 Accruals and deferred income

This item is used to report accrued expenses and deferred income not relating to interest-bearing assets and liabilities.

NOTE 23 Liabilities on securities settlement proceeds

Liabilities on securities settlement proceeds refer to purchase amounts for securities purchased where payment has not yet been made.

NOTE 24 Other liabilities

	31-12-2002	31-12-2001
Pension liability	537	489
Holiday pay liability	22	19
Accounts payable - trade	57	55
Other	31	1 872
Total	647	2 435

The pension liability has been calculated by the National Government Employee Pensions Board and includes a reservation for a special employer's contribution. Of the total pension liability, SEK 24 million (SEK 26 million) refers to personnel who were transferred to PSAB Pengar i Sverige AB (now Svensk Kontantförsörjning AB) in 1999. The item Other includes SEK 1 852 million for 2001 regarding a temporary liability to the Swedish National Debt Office caused by a payment made at the end of the year.

NOTE 25 Balancing account

This account has been used since 1988 in accordance with the guidelines for the allocation of the Riksbank's net revenue.

NOTE 26 Capital

The capital consists of:

	31-12-2002	31-12-2001
Capital	1 000	1 000
Reserve fund	500	500
Contingency fund	61 443	69 390
Total	62 943	70 890

The contingency fund consists of

	31-12-2002	31-12-2001
Allocations from net revenue		
Exchange rate effects	37 579	28 446
Gold valuation effects	3 602	1 594
Other allocations from net revenue	7 169	26 254

Write-up of assets

Gold reserve	12 686	12 686
Fixed assets	172	175
BIS shares	235	235
Total	61 443	69 390

The Riksbank Act states that the Riksbank shall have capital to an amount of SEK 1 000 million and a reserve fund amounting to SEK 500 million, as well as a contingency fund.

The size of the contingency fund is not regulated in the Riksbank Act, but has been used since 1988 according to the guidelines for the Riksbank's allocation of net revenue set in the same year. It is also used for entering the amounts of asset write-ups. The Riksbank's gold reserve was written up at market value on 31 December 1998 and fixed assets were valued in the balance sheet in 1994 at the acquisition value minus depreciation. During 2001 a transfer has been made between the items write-up of fixed assets and allocation of net revenue at SEK 3 million due to the year's depreciation and write-downs, as well as sales of fixed assets.

The value of the BIS shares was written up in 1996 to correspond to the market value of the gold used as payment for the share allocation in that year.

The changes in the items balancing account, equity capital and result for the year are explained in the table below:

	Results balancing account	Equity capital	Result for the year	Total
Balance 31 December 2001	26 401	70 890	19 277	116 568
Transfer to the Treasury		-20 000	-7 300	-27 300
Transfer to/from				
Balancing account	-76		76	0
Contingency fund		12 053	-12 053	0
Result for the year			-71	-71
Balance 31 December 2002	26 325	62 943	-71	89 197

NOTE 27 Interest income

	2002	2001
Foreign securities	5 734	6 399
Domestic securities	-	574
Main refinancing operations	1 465	2 185
Other	21	39
Total	7 220	9 197

This item primarily includes bond interest and interest received from the main refinancing operations.

NOTE 28 Interest expense

	2002	2001
Foreign liabilities	-188	-427
Domestic liabilities	-18	-18
Total	-206	-445

Interest expense consists primarily of interest on deposit accounts at the Riksbank.

NOTE 29 Net result of financial transactions

	2002	2001
Price effect		
foreign securities	6 670	852
domestic securities	-	-583
Exchange rate effect	-13 161	9 133
Gold valuation effect	774	2 008
Total	-5 717	11 410

The price effect includes realised and unrealised exchange rate gains and losses on securities.

The exchange rate effect includes realised and unrealised results from assets and liabilities in foreign currency.

The gold valuation effect includes realised and unrealised results relating to changes in the market value of the gold reserve during 2002.

NOTE 30 Fees and commissions income

This item mainly includes annual fees and transaction fees with regard to the RIX system.

NOTE 31 Fees and commissions expense

This item mainly includes expenses for securities custody accounts.

NOTE 32 Income from equity shares

Dividend has been received from BIS amounting to SEK 39 million.

NOTE 33 Other income

Other income includes rent compensation with regard to the Riksbank's property in Gävle.

NOTE 34 Staff costs

	2002	2001
Salaries and benefits	-172	-151
Pension costs	-72	-49
Social security charges	-70	-58
Other	-23	-21
Total	-337	-279

SEK 4 million of the increase in the item salaries and benefits consists of increases in basic salaries. The remainder is mainly attributable to salary increments and effects of new recruitments and staff turnover. Salaries and benefits to the members of the Executive Board amounted to SEK 11 million (SEK 9 million) in 2002. The increase is primarily due to an allocation made for salary payments during the qualification period for the departing Governor. The General Council has decided that during the statutory qualification period after the end of employment, members of the Board shall receive a full salary without a work requirement. However, deduction will be made for any income from other employment during this period. During 2002 staff costs attributable to IT investments for the Riksbank's own systems development have been included in the acquisition value of the asset to a value of SEK 8 million (SEK 7 million). The increase in the item pension costs is mainly explained by the fact that the pension liability increased during 2002 by SEK 38 million, SEK 3 million of which is attributable to the Executive Board. The increase in the pension liability was primarily due to higher pension-based salaries.

According to a decision made by the General Council on 21 May 1999 regarding guidelines for pension conditions for members of the Riksbank's Executive Board, the regulation (RFS 1996:4) issued by the Administrative Board of the Riksdag on the implementation of the ordinance on pensions for senior government officials, etc. (1995:1038) shall apply to members of the Executive Board. This regulation stipulates that earlier provisions can still apply to persons covered by the regulations that were rescinded on 31 December 1996, which means that Eva Srejber and Lars Heikensten are covered by the earlier regulation (1991:1160) on pensions for senior government officials, etc., while the four other Board members are covered by the newer regulation (1995:1038).

NOTE 35 Administrative expenses

	2002	2001
Information, hospitality	-14	-18
Transport, travel	-19	-16
Consulting assignments	-60	-63
Other external services	-9	-5
IT operation	-54	-51
Economics prize	-17	-17
Office and property maintenance	-37	-35
Other	-6	-6
Total	-216	-211

Information expenses include costs for the Riksbank's regular publications (the Inflation Report the Financial Stability Report, Annual Report, Quarterly Review, etc.), special information projects, the staff magazine Banco-posten, etc. Other expenses here consist primarily of operating costs for offices and properties. The items consulting assignments and other external services include costs corresponding to SEK 21 million (SEK 26 million) with regard to adaptation work in connection with the Riksbank's efforts to concentrate its operations. This adaptation work covers in particular costs for starting up PSAB, the sale of Tumba Bruk, transfer of the production of balance of payments statistics to Statistics Sweden and costs for the installation of a new teletechnical security system. The costs for IT operations have increased between the years 2002 and 2001, mainly due to higher licence fees.

NOTE 36 Depreciation of tangible fixed assets

This item is used to report depreciation according to plan of tangible fixed assets.

NOTE 37 Banknote and coin expenses

Of the total cost for banknotes and coins of SEK 322 million, SEK 202 million is for the purchase of banknotes and SEK 120 million for the purchase of coins.

NOTE 38 Other expenses

This item mainly consists of a write-down of SEK 435 million (SEK 50 million) with regard to the shareholding in Svensk Kontantförsörjning AB (formerly PSAB Pengar i Sverige AB).

It also includes expenditure amounting to SEK 22 million with regard to reinforcement of the premises in Tumba, to which the banknote destruction operations have been moved. In addition, the item contains write-downs of SEK 8 million for banknote destruction machinery that has been transferred to Svensk Kontantförsörjning AB. There is also an allocation of SEK 7 million regarding a commitment to provide compensation to the National Property Board for neglected maintenance of the buildings donated by Tumba Kulturfastigheter in 2002.

NOTE 39 Memorandum items*Pledged collateral*

Securities with a market value equivalent to SEK 0 million (SEK 272 million) have been pledged in connection with foreign securities repos.

Securities with a market value equivalent to SEK 96 million (SEK 95 million) have been pledged as marginal collateral.

Gold corresponding to a market value of SEK 11 047 million (SEK 11 047 million) has been lent, SEK 390 million (SEK 844 million) of which was in the form of gold repos.

Contingent liabilities

An undertaking to pay to KPA Pensionsförsäkring AB supplementary compensation if so required as a result of index-linking the pension benefits to which the in-

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

Commitments

Mutual short-term exchange support agreements with the central banks in Denmark, Norway and Iceland to provide up to EUR 1 000 million⁶. Agreements under GAB (General Arrangements to Borrow) and NAB (New Arrangements to Borrow) to provide the IMF with a credit facility of up to SDR 859 million⁶.

Forward interest rate contracts with a negative value amounted to a nominal total of SEK 3 801 million (SEK 3 205 million) with a market value of SEK 12 million (SEK 72 million).

Outstanding currency forward contracts with a negative value amounted to a nominal total of SEK 1 010 million (SEK 0 million) with a market value of SEK 19 million (SEK 0 million).

Outstanding currency swaps with a positive value amounted to a nominal total of SEK 2 576 million (SEK 0 million) with a market value of SEK 27 million (SEK 0 million). Currency swaps with a negative value amounted to a nominal total of SEK 2 640 million (SEK 3 160 million) with a market value of SEK 15 million (SEK 101 million).

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

The Riksbank has given an undertaking to a limited number of officials who have transferred to employment at Pengar i Sverige AB (now Svensk Kontantförsörjning AB) that they will have the possibility to return to employment at the Riksbank as long as the company is owned by the Riksbank. If the share majority passes to another owner(s), the corresponding commitment will be valid for a maximum of two years after the change in majority ownership.

Undertaking to provide the Nobel Foundation with funds for the annual award of a prize in economic sciences in memory of Alfred Nobel.

⁶ Translation rates to SEK on 31 December 2002: EUR 9.15 and SDR 11.88.

■ Five-year overview SEK MILLION

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

Balance Sheet	31-12-02	31-12-01	31-12-00	31-12-99	31-12-98
Assets					
Gold	18 210	17 436	15 428	14 774	13 834
Claims on residents outside Sweden denominated in foreign currency					
Receivables from the IMF	14 306	13 293	10 671	12 949	13 707
Balances with banks and security investments	136 288	134 405	141 948	125 018	108 705
	150 594	147 698	152 619	137 967	122 412
Lending to monetary policy counter parties denominated in Swedish kronor					
Main refinancing operations	29 219	65 118	40 871	45 596	41 581
Fine-tuning operations	1 415	3 988	2 285	-	2 240
Marginal lending facility	87	29	48	37	25
	30 721	69 135	43 204	45 633	43 846
Securities of residents in Sweden denominated in Swedish kronor	-	-	20 728	28 998	32 842
Other assets					
Tangible fixed assets	455	406	372	354	720
Financial assets	382	617	667	767	367
Off-balance sheet instruments	-	-	-	13	30
Accruals and deferred expenditure	13	4	17	5	12
Claims for securities settlement proceeds	365	-	-	-	-
Other assets	244	236	220	254	311
	1 459	1 263	1 276	1 393	1 440
Total assets	200 984	235 532	233 255	228 765	214 374
Liabilities and capital					
Banknotes and coins in circulation					
Banknotes	101 979	102 367	93 229	94 237	82 288
Coins	5 005	4 744	4 434	4 213	3 980
	106 984	107 111	97 663	98 450	86 268
Liabilities to monetary policy counterparties denominated in Swedish kronor					
Deposit facility	87	48	108	257	84
Fine-tuning operations	-	-	-	4 200	-
Other deposits	-	-	-	-	1 595
	87	48	108	4 457	1 679

cont. balance sheet	31-12-02	31-12-01	31-12-00	31-12-99	31-12-98
Liabilities to residents outside Sweden denominated in Swedish kronor	207	161	159	156	230
Liabilities to residents in Sweden denominated in foreign currency	-	2 204	1 432	2 018	-
Liabilities to residents outside Sweden denominated in foreign currency	356	3 549	4 105	5 256	3 641
Counterpart of SDRs allocated by the IMF	2 939	3 271	3 066	2 899	2 838
Other liabilities					
Off-balance sheet instruments	17	176	130	-	-
Accruals and deferred income	6	9	6	2	7
Liabilities on securities settlement proceeds	544	-	493	-	208
Other liabilities	647	2 435	603	499	781
	1 214	2 620	1 232	501	996
Balancing account and capital					
Balancing account	26 325	26 401	42 193	51 046	47 422
Equity capital	62 943	70 890	62 988	60 057	49 437
	89 268	97 291	105 181	111 103	96 859
Result for the year	-71	19 277	20 309	3 925	21 863
Total liabilities and capital	200 984	235 532	233 255	228 765	214 374
Profit and Loss Account	2002	2001	2000	1999	1998
Interest income	7 220	9 197	9 572	8 347	8 781
Interest expense	-206	-445	-548	-393	-448
Net result of financial operations	-5 717	11 410	12 009	3 352	14 024
Fees and commissions income	10	11	12	53	121
Fees and commissions expense	-3	-4	-7	-7	-11
Income from equity shares	39	35	38	36	33
Other income	4	11	21	17	33
Total income	1 347	20 215	21 097	4 701	22 533
Staff costs	-337	-279	-253	-271	-302
Administrative expenses	-216	-211	-160	-173	-168
Depreciation of fixed assets	-69	-63	-62	-69	-75
Banknote and coin expenses	-322	-332	-209	-138	-117
Other expenses	-474	-53	-104	-125	-8
Total expenses	-1 418	-938	-788	-776	-670
Result for the year	-71	19 277	20 309	3 925	21 863

Subsidiaries

SEK MILLION

Crane AB (formerly AB Tumba Bruk)

Profit and Loss Account

	2002	2001
Operating income	424	565
Operating expense	-540	-562
Operating profit/loss	-116	3
Financial items	-5	-3
Result after financial items	-121	0
Appropriations	2	4
Taxes	33	-4
Result for the year	-86	0

The coin operations were divested as of 1 January 2002, which explains approximately half of the reduction in income from the year 2001. The lower income during 2002 can also be attributed to a lower demand for banknote paper on the global market and to a smaller amount of orders for Swedish banknotes following the introduction of the new 500-kronor and 100-kronor banknotes in 2001.

An item of prepaid tax is taken up as a result of the restructuring allocation, obsolescence write-down and a loss carry-forward.

Balance Sheet

	31-12-2002	31-12-2001
Fixed assets	301	279
Current assets	140	255
Total assets	441	534
Equity capital	164	250
Untaxed reserves	73	74
Allocations	0	0
Long-term liabilities	84	78
Current liabilities	120	132
Total equity capital and liabilities	441	534

Board of Directors

Lansing Crane, Chairman
 Kersti Eriksen
 Lars-Åke Helgesson
 Frank Kittredge
 Lars Nyberg
 Marcus Storch
 Sten Westerberg
 Fred Whitridge
 Urban Arebro, employee representative
 Mats Dafthagen, employee representative

Managing Director

William Westervelt

Crane AB

SE-147 82 TUMBA
 Tel. +46-8-578 695 00, fax +46-8-578 698 00
 www.crane.se

Svensk Kontantförsörjning AB (formerly PSAB Pengar i Sverige AB)

Profit and Loss Account (group*)

	2002	2001
Operating income	283	264
Operating expense	-511	-331
Operating profit/loss	-228	-67
Financial items	-9	0
Result after financial items	-237	-67
Taxes	0	0
Result for the year	-237	-67

Following a decision by the Executive Board of the Riksbank, the company has been split up into two separate companies. The commercial operations (PSAB) shall be sold during 2003. With regard to the remaining operations (SKAB), the possibility of a transfer to the commercial banks is being examined.

The restructuring costs in connection with the division of the company are estimated at just over SEK 200 million, approximately SEK 100 million of which will be charged to the result for 2002. The negative result is also largely due to reduced volumes in the operations attributable to assignments from the Riksbank. The commercial operations, which were built up prior to the sale, have also shown a negative result over the year.

In December the company received a conditional shareholder's contribution of SEK 200 million to cover restructuring costs.

Balance Sheet (group*)

	31-12-2002	31-12-2001
Fixed assets	256	277
Current assets	132	81
Total assets	388	358
Equity capital	210	247
Allocations	25	23
Long-term liabilities	8	-
Current liabilities	145	88
Total equity capital and liabilities	388	358

Board of Directors

Lars Nyberg, Chairman
 Gunnar Bäckman, MD
 Kersti Eriksen
 Lennart Hagberg
 Kjell Ehrlund, employee representative
 Monica Johansson, employee representative

Managing Director

Gunnar Bäckman

Svensk Kontantförsörjning AB

Box 14041
 SE-167 14 BROMMA
 Tel +46 8 634 63 00, fax +46 8 634 63 01
 www.pengarisverige.se

* The group includes the subsidiaries Pengar i Sverige AB, Svenska Kontanthanteringsystem AB, Swedcash AB (dormant) and Svenska Kontanthanteringsfastigheter AB with three property management subsidiaries.

Eskilstuna Penningsmedja AB*Profit and Loss Account*

	08-10-2001	31-12-2002
Capital gain on sale of coin operations, etc.		196.7
Other expenses	-0.2	
Interest income	8.2	
Result after financial items	204.7	
Tax on the year's result	-57.3	
Result for the year	147.4	

The company was acquired in December 2001 for the purpose of purchasing the coin operations including a property in Eskilstuna from AB Tumba Bruk (now Crane AB) for immediate sale to the Finnish mint Rahapaja Oy (Nordic Coin AB). This sale was implemented with effect from 1 January 2002 and the total sale price amounted to SEK 219.5 million.

The company does not pursue any operations and the aim is that it shall be liquidised during 2003, following the year-end closing and profit distribution for 2002 and when the guarantee commitments in relation to Nordic Coin AB expire at the end of June.

Balance Sheet

	31-12-2002
Current assets	204.8
Total assets	204.8
Equity capital	147.5
Current liabilities	57.3
Total equity capital and liabilities	204.8

Board of Directors

Kersti Eriksen, Chairman
Björn Hasselgren

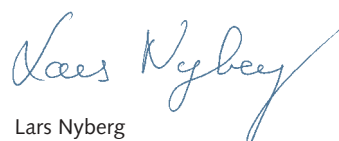
Eskilstuna Penningsmedja AB

c/o Sveriges Riksbank
Secretariat of the Executive Board
SE-103 37 Stockholm

Stockholm, 6 February 2003



Lars Heikensten
Governor



Lars Nyberg
Deputy Governor

Tumba Kulturfastigheter AB*Profit and Loss Account*

	08-10-2001	31-12-2002
Operating income		-
Operating expense		-1.0
Operating profit/loss		-1.0
Interest income	0	
Result after financial items	-1.0	
Tax on the year's result	-	
Result for the year	-1.0	

The company was acquired in December 2001 with the aim of purchasing land, some buildings of cultural heritage importance and equipment from AB Tumba Bruk (now Crane AB). The cultural heritage area with buildings and adjacent land was transferred to the National Property Board with effect from 1 October 2002. The purpose was to ensure that the unique mill environment with industrial and cultural heritage importance, along with the buildings and park should be preserved for future generations. The remaining land will be sold. The intention is to form a foundation to conduct museum operations, etc. within the mill area. When the sale is complete and the foundation has been formed, the aim is to wind up the company.

Balance Sheet

	31-12-2002
Current assets	0.2
Total assets	0.2
Equity capital	0.1
Liabilities	0.1
Total equity capital and liabilities	0.2

Board of Directors

Kersti Eriksen, Chairman
Björn Hasselgren

Tumba Kulturfastigheter AB

c/o Sveriges Riksbank
Secretariat of the Executive Board
SE-103 37 Stockholm



Eva Srejber
First Deputy Governor



Kristina Persson
Deputy Governor



Villy Bergström
Deputy Governor



Irma Rosenberg
Deputy Governor

■ Proposal to the Riksdag for the allocation of profits for 2002

The General Council of the Riksbank resolved on 14 February 2003 to submit the following proposal for the allocation of the Riksbank's profits.

The result before appropriations for 2002 amounts to a loss of SEK 71 million. The General Council proposes that:

SEK million	
Transfer to the Treasury	7 500
Transfer from the Contingency Fund	-12 387
Transfer to the Balancing Account	4 816

The proposal has been calculated on the basis of guidelines established by the General Council in 1988.

The allocation of profits principle entails 80 per cent of a five-year average of the Riksbank's profits, excluding exchange rate and gold valuation effects, being transferred to the Treasury annually.

Auditors' report

According to the Act on the auditing of the Riksdag's administration and authorities subject to the Riksdag, etc. (1988:46, most recently amended as 2000:426), the Parliamentary Auditors shall, at the end of each financial year, scrutinise the condition, governance and administration of the Riksbank. An audit report shall be submitted to the Riksdag. This report shall clarify the extent and approach of the auditors' examination and conclude with a statement as to whether the auditors consider that the Executive Board and the General Council should be granted discharge from liability. The auditors shall also issue an opinion on the Riksbank's profit and loss account and balance sheet.

In accordance with Chapter 10, Article 3, of the Sveriges Riksbank Act (1988:1385), the Executive Board has submitted the accounts for 2002 (report on 2002/03:RB1). The General Council has made a recommendation on the allocation of the Riksbank's profits.

THE AUDIT CARRIED OUT

As in previous years, we have been assisted by KPMG Bohllins AB in the audit of the Riksbank's accounts and administration for 2002. Authorised public accountant Roland Nilsson has been in charge of this audit. The result of the audit has been made available to us in the enclosed report. As stated in the report, the auditors recommend that the profit and loss account and balance sheet for 2002 be adopted.

When dealing with this matter, we have also examined a more detailed report of the examination of the Riksbank's accounts for 2002. This report, which we have submitted to the Riksdag's Finance Committee, has been drawn up jointly by the Riksbank's Internal Auditing Department and KPMG. According to the report, the annual accounts are in all essential true and fair.

In the separate report, the auditors take up the most important points of discussion arising from the audit.

The examination of the Riksbank's administration and accounts for 2002 has not otherwise given us cause for any special qualification.

RECOMMENDATIONS

With reference to what has been stated, we recommend with regard to the Riksbank's activities that

1. the General Council of the Riksbank be granted discharge from liability for operations during 2002,
2. that the Executive Board of the Riksbank be

granted discharge from liability for administration of the Riksbank during 2002 and that

3. the Riksdag adopt the Riksbank's balance sheet and profit and loss account for 2002.

This matter has been dealt with by the auditors in plenum. The following auditors have participated in the decision: Ingemar Josefsson (s), Anders G Högmark (m), Per Rosengren (v), Anita Jönsson (s), Gunnar Andrén (fp), Hans Stenberg (s), Kenneth Lantz (kd), Bengt Silfverstrand (s), Margit Gennser (m), Nils-Göran Holmqvist (s), Karl-Gösta Svenson (m) and Conny Öhman (s).

In the final consideration of the matter, administrative director Åke Dahlberg and chief investigator Karin Rudberg (person reporting) were also in attendance.

Stockholm, 13 March 2003

On behalf of the Parliamentary Auditors

Ingemar Josefsson

Karin Rudberg

KPMG

TO THE PARLIAMENTARY AUDITORS

Audit report for Sveriges Riksbank 2001

The Parliamentary Auditors have appointed KPMG as expert in the field of external audit to assist in the examination of Sveriges Riksbank. Our report on the audit of Sveriges Riksbank's accounts and administration for 2002 is as follows.

We have examined the Riksbank's Directors' Report and the accounts for 2002. We have further examined the audit reports of the Internal Auditing Department and otherwise obtained an opinion of the audit measures undertaken by the internal audit with regard to current accounts and the annual accounts. The Internal Auditing Department at the Riksbank and KPMG have submitted a joint report dated 31 January 2003 on the audit made of the accounts for 2002 and other observations from the year's audit. The report has been sent separately.

We recommend that the profit and loss account and balance sheet be adopted.

Stockholm, 17 February 2003

KPMG Bohllins AB

Roland Nilsson

■ Glossary

Asset prices Prices of mainly shares and property.

Balance of payments The statistical reporting of a country's external economic transactions.

BIS The Bank for International Settlements in Basel is "the central banks' bank". Its members currently include 49 central banks, including most of the European countries. Its board of governors consists of the G10 countries.

Counterparty The other party in a financial transaction.

ECB The European Central Bank in Frankfurt. The bank was established on 1 June 1998 and is the joint central bank for the countries fully participating in the third stage of EMU.

Econometric models Econometric models use historical correlations, calculated by means of statistics, to illustrate the connections between different parts of the economy.

EFC The Economic and Financial Committee of the EU, which provides advice on economic policy issues to the ECOFIN Council.

EMU Economic and Monetary Union. The third and final stage began on 1 January 1999, when the exchange rates between the currencies in the twelve participating countries were fixed irrevocably and responsibility for monetary policy was transferred from these countries to the joint decision-making process of the ECB Governing Council.

ESCB The European System of Central Banks. ESCB consists of the ECB and the 15 national central banks in the EU.

Exchange rate The price of a currency expressed in units of another currency.

Exchange rate policy A central bank's actions to influence its own currency's exchange rate vis-à-vis other currencies.

Foreign currency reserve A reserve of foreign currency used when buying and selling Swedish kronor. Listed on the asset side of the Riksbank's balance sheet.

G10 The Group of Ten, rests upon a loan agreement entered into by ten countries with the IMF in 1961 in order to supply the latter with liquidity under exceptional circumstances. The Group has served primarily as an investigative body on issues regarding the international financial system. The Riksbank, together with the Ministry of Finance, represents Sweden in this co-operation. A special co-operation has also been developed between the central banks in G10, including a number of committees working in different ways to strengthen international financial stability.

IMF The International Monetary Fund was formed in 1944 to promote trade and growth by encouraging international monetary co-operation and financial stability. The organisation currently has 183 member countries and the Riksbank serves as the contact body for the IMF in Sweden.

Inflation General price rises that cause a reduction in the value of money. The opposite is known as deflation.

Intervention When a central bank buys or sells currency on the open market, usually with the aim of influencing its own country's exchange rate.

Long-term interest rate Interest on loans with a longer time to maturity than one year.

Money market A market consisting of banks and other financial institutions that receive short-term deposits and grant short-term loans – for a period of one day up to one year. (The capital market is aimed at medium and long-term credit).

Monetary policy The Riksbank's actions to influence the interest rate level and, indirectly, price levels.

Official discount rate A reference rate that reflects the general interest rate situation and is invoked, e.g., in the Interest Act's provisions on penalty interest. With effect from 1 July 2000, the Swedish National Debt Office took over from the Riksbank the task of establishing and publishing the official discount rate.

Payment system The infrastructure used to implement payments.

Price stability A fixed value for money. According to the Riksbank's definition, price stability means that CPI inflation is limited to 2 per cent \pm 1 percentage point.

Repo A transaction where the Riksbank lends money to the banks through what is known as monetary policy repos. A monetary policy repo means that the Riksbank supplies liquidity by buying securities from the banks and at the same time agreeing to sell back the securities to the banks after a set period of time (among market operators this is known as a reversed repo). The Riksbank then receives its money back and the securities are returned to the original owners.

Repo rate The interest rate the banks have to pay (or receive) when borrowing (or depositing) money from the Riksbank for a week.

RIX The Riksbank's system for clearing and settlement of payments. The system settles payments both in kronor (K-RIX) and in euro (E-RIX) in accordance with the principle of gross real-time settlement. RIX is linked to TARGET (see below).

■ Publications

Settlement The meeting of an obligation when a security or money is transferred from one party to another. The transfer is often merely an accounting measure.

Short-term interest rate Interest on loans with a shorter time to maturity than one year.

Steering interest rates The interest rates the Riksbank sets itself: the deposit rate, the lending rate and the repo rate. The repo rate is the most important steering interest rate.

TARGET The joint payment system within the EU to which member countries' national payment systems are connected. It links together 16 central banks and approximately 5,000 commercial banks.

UCLA University of California Los Angeles.

Value dating A physical transaction whereby cash is placed in or distributed from the Riksbank's cash stocks to/from a bank or post office, thus initiating or terminating the calculation of interest.

The Riksbank produces a number of publications each year. The most important are:

The Inflation Report is issued four times a year. This report forms a basis for monetary policy decisions. It is also intended to make the Riksbank's assessments generally accessible in order to stimulate interest in and facilitate understanding of monetary policy.

The Financial Stability Report is issued twice a year. This report describes the Riksbank's views of developments in the financial system and what they involve for stability. The aim is also to stimulate a discussion of matters that concern the stability of the payment system.

Sveriges Riksbank Economic Review is issued four times a year. This quarterly journal contains articles on subjects in the Riksbank's field of operations.

The Annual Report provides an account of monetary and foreign exchange policy during the past year. It also contains the Riksbank's annual accounts, including a directors' report, balance sheet, and profit and loss account.

The Statistical Yearbook is issued once a year. It contains statistics on the Riksbank, the financial markets, the payment system, the balance of payments and the foreign exchange market.

The Working Paper Series presents reports connected to the Riksbank's field of operations that are also considered to be of interest to parties outside the bank.

Publications from the European Central Bank, ECB.

Information material on, for instance, the Riksbank, Swedish banknotes and coins and the euro.

All of the Riksbank's publications are available on its website (www.riksbank.se). The majority of them are published in both Swedish and English. The simplest way to order them is through the order function on the website. The Riksbank also publishes press releases, speeches, articles and minutes from meetings of the Executive Board and the General Council on its website.

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■ Submissions

The following submissions regarding matters referred to the Riksbank for comment were presented by the Executive Board in 2002. Unless otherwise stated, the decision has been taken by Deputy Governor Villy Bergström, who is the Executive Board member responsible for preparing submissions.

Ministry of Finance

25-10-2002

Submission regarding proposal for guidelines for the management of the central government debt. A decision on this matter was taken by the Executive Board of the Riksbank.

18-10-2002

Submission regarding the report "Stabilisation policy in the monetary union" (SOU 2002:16). A decision on this matter was taken by the Executive Board of the Riksbank.

16-10-2002

Submission regarding the update of the government decision in respect of the Swedish contribution to the EU.

30-09-2002

Submission regarding the interim report of Värdepappersfundsutredningen (the Committee on Mutual Funds) (SOU 2002:56). A decision on this matter was taken by the Executive Board of the Riksbank.

23-09-2002

Submission regarding the Ministry of Finance's memorandum on a change of the transitional regulations for certain financial companies (Fi 2002/3173).

29-08-2002

Submission circulated for comment by the Financial Action Task Force on Money Laundering (FATF) with regard to the review of its 40 recommendations.

26-08-2002

Submission regarding the Ministry of Finance's memorandum on tax provisions for a system for individual competence development (Fi 2002/2623).

06-06-2002

Submission regarding (Ds 2002:5) on Reformed regulations for banking and financing operations. A decision on this matter was taken by the Executive Board of the Riksbank.

07-05-2002

Submission regarding the Swedish National Debt Office's proposal for an amendment of the regulations of the Banking Business Act regarding banking secrecy.

22-02-2002

Submission regarding the memorandum on the application of the EC regulation on cross-border payments in euro (Ref no. Fi 2002/552). A decision on this matter was taken by the Executive Board of the Riksbank.

15-02-2002

Submission regarding the report "Regulations for the Swedish National Audit Office" (SOU 2001:97). A decision on this matter was taken by the General Council of the Riksbank.

28-01-2002

Submission regarding the matter of an expansion of prospectus obligations within the EU (Ministry of Finance's ref no. EUFi 2002/1025).

Finansinspektionen (the Swedish Financial Supervisory Authority)

28-11-2002

Submission regarding a proposal for instructions on the obligation of Swedish life insurance companies to submit an account of their balance sheet, profit and loss account, etc.

16-10-2002

Submission regarding proposal for instructions and general guidelines on measures to prevent the financing of serious crime.

11-10-2002

Submission regarding a proposal for a change to Finansinspektionen's instructions and general guidelines on insurance companies' accounting (FFFS 2002:22), the reasons for the changes and the associated impact study.

11-10-2002

Submission regarding a proposal for a change to Finansinspektionen's instructions FFFS 1997:11 on mutual funds and the associated impact study.

11-10-2002

Submission regarding a proposal for a change to Finansinspektionen's instructions (FFFS 2001:19), the reasons for the changes and the associated impact study.

11-09-2002

Submission regarding Finansinspektionen's proposal for instructions on the issuing of electronic money and a proposal for general guidelines for applying for authorisation to issue electronic money.

27-06-2002

Submission regarding the memorandum on Finansinspektionen's position on the recommendations of Redovisningsrådet (the Swedish Financial Accounting Standards Council) and the statements of Akutgruppen (the emerging issues task force).

17-06-2002

Submission regarding the application of Nordnet Securities AB for a banking charter.

13-05-2002

Submission regarding a proposal for instructions and general guidelines on the reporting of important business transactions and agreements within an insurance group.

04-03-2002

Submission regarding a proposal for instructions for a group-based capital base and solvency margin for insurance companies and benevolent societies that form part of a group.

Ministry of Agriculture, Food and Fisheries

04-07-2002

Submission regarding the report "Payment of farm subsidies in euro" (SOU 2002:36).

Ministry of Justice

11-09-2002

Submission regarding the report "Foreign currency – owner's mortgage" (SOU 2001:83).

04-07-2002

Submission regarding the report "Owning one's apartment" (SOU 2002:-21).

22-04-2002

Submission regarding the interim report of Tillsynsutredningen (the Committee on Supervision) entitled "Government supervision" (SOU 2002:14).

18-01-2002

Submission regarding the memorandum Corporate fines (Ds 2001:69).

18-01-2002

Submission regarding the report from Statistics Sweden containing a proposal to amend the Official Statistics Act (2001:99).

The National Board of Trade

21-08-2002

Submission regarding Swedish-German trade links ahead of the meeting of the Swedish Government Commission. A decision on this matter was taken by Gustaf Adlercreutz at the Riksbank's International Department.

01-07-2002

Submission circulated for comment to trade and industry regarding Swedish priorities in the EU's future negotiations with the ACP countries.

The Swedish Emergency Management Agency

Submission regarding the Swedish Emergency Management Agency's statement "Review of objectives for areas of co-operation" (KBM ref no. 0591/2002).

Ministry of Industry, Employment and Communications

11-10-2002

Submission regarding the report of the National Post and Telecom Agency (PTS) entitled "Proposal for amendment of the Official Secrets Act" (1980:100) – proposed as a result of the PTS task to establish a function for IT incident reporting.

04-10-2002

Submission regarding the interim report "Time – for work and leisure" (SOU 2002-58). A decision on this matter was taken by the Executive Board of the Riksbank.

The Riksdag

Submission regarding the Riksdag Committee's proposal "A modernised Riksdag Act". A decision on this matter was taken by the General Council of the Riksbank.

Statistics Sweden

26-09-2002

Submission regarding a proposal for a revised standard for the breakdown of branches of industry and a new standard for the breakdown of products.

SWEDAC

22-04-2002

Submission regarding a proposal for special instructions with regard to both quality and environmental management systems.

Ministry for Foreign Affairs

02-07-2002

Submission regarding the report "A more just world without poverty" (SOU 2001:96). A decision on this matter was taken by the Executive Board of the Riksbank.

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