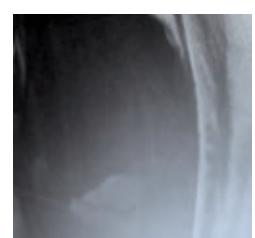
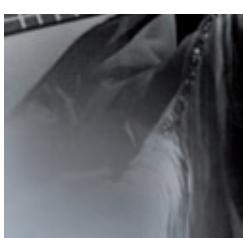
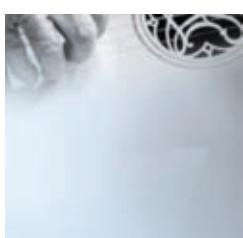
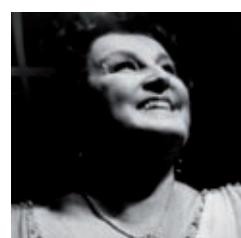
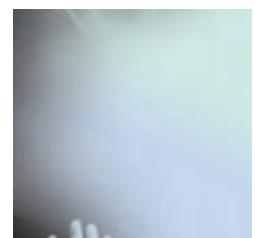
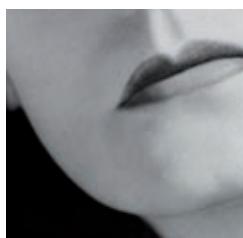




Annual Report 2011



S V E R I G E S R I K S B A N K

■ The tasks and role of the Riksbank

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

Maintaining the value of money – price stability

Under the Sveriges Riksbank Act, the Riksbank shall maintain price stability, which means that inflation should be low and stable. The Riksbank has specified an inflation target, according to which the annual change in the consumer price index (CPI) is to be 2 per cent. The Riksbank's monetary policy is aimed at attaining the inflation target, and at the same time it is to support the objectives of general economic policy with a view to achieving sustainable growth and high employment.

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

A safe and efficient payment mechanism – financial stability

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

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

The Riksbank's independence

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

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

The Riksbank's independent status is also reflected in its financial independence, guaranteed through the right to manage financial assets. The Riksbank's assets are mainly funded through the issue of banknotes and coins (seigniorage) as well as equity capital. The Riksbank manages its financial assets to ensure that it can fulfil its statutory objective and perform its tasks. Given this, asset management concentrates on achieving as high a long-term return as possible in relation to the risk taken.

Openness and communication

The Riksbank attaches great importance to being open and clear about the bank's activities. A wide range of external parties must be able to understand what the bank does and why. This increases the credibility of the inflation target, which makes it easier to attain the target.

Openness and clarity also create confidence in how the Riksbank assesses and handles the situation on the financial markets. Openness and clarity in the Riksbank's assessments of financial stability is one of several conditions that enable economic agents to form an opinion of the risks in the financial system, and to act accordingly.

The independent status of the Riksbank also places great demands on the transparency of the bank's activities so that they can be examined and evaluated. Openness is apparent, for example, in the fact that the Riksbank publishes on its website minutes and background material from the meetings of the Executive Board, as well as the minutes of the monetary policy meetings. Moreover, the models used by the Riksbank in its analyses are publicly available – both macroeconomic forecast models and models for stress tests of banks.

■ Contents

THE GENERAL COUNCIL'S ANNUAL REPORT AND PROPOSAL FOR ALLOCATION OF THE RIKS BANK'S PROFITS FOR 2011

Annual Report of the General Council	8
Proposal for the allocation of profits for 2011	12
Transfer calculation of the Riksbank's profits 2011	13

ANNUAL REPORT FOR SVERIGES RIKSBANK 2011

INTRODUCTION

Statement by the Governor	16
The year at a glance	18

ADMINISTRATION REPORT

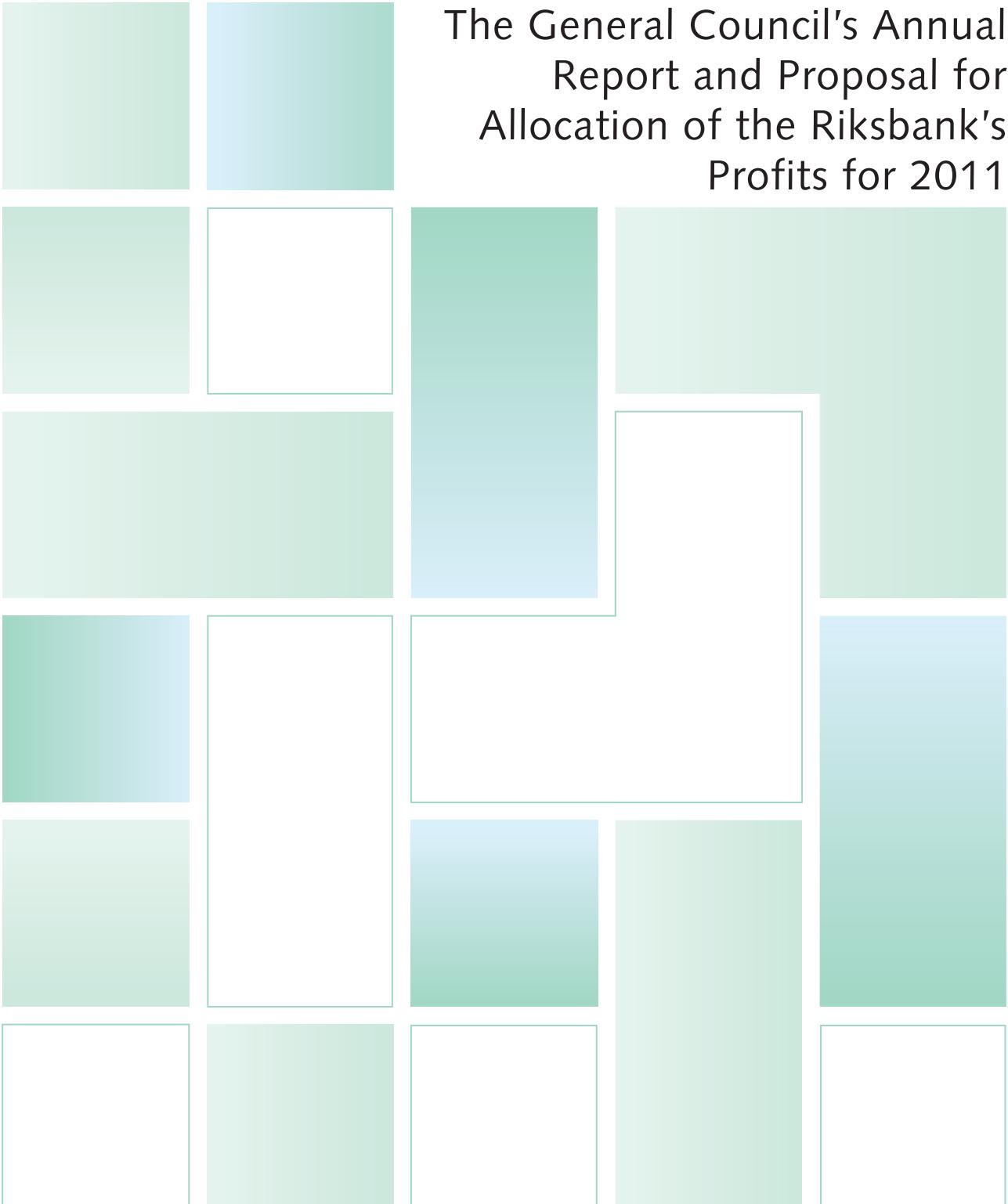
Maintaining the value of money – price stability	20
A safe and efficient payment mechanism	33
Asset management	49
Organisation and management	55

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Accounting policies	64
Balance sheet	66
Profit and loss account	68
Cash flow statement	69
Notes	71
The profit and loss account and balance sheet by function	80
Five-year overview	82
Internal controls	84
Audit Report for Sveriges Riksbank	85

OTHER ITEMS

Consultation work of the Riksbank	86
Publications	88
The Sveriges Riksbank Prize in Economic Sciences in memory of Alfred Nobel 2011	89
Glossary	90



The General Council's Annual Report and Proposal for Allocation of the Riksbank's Profits for 2011



■ Annual Report of the General Council

The General Council consists of eleven members and as many deputies. The members are appointed by the Riksdag after each general election, for a term of office of four years. The General Council selects from among its number a Chairman and a Vice Chairman. For 2011 the General Council therefore proposes a transfer of SEK 7 500 million. The General Council's Annual Report 2011 gives an overall description of the matters discussed and the information the General Council has received at its meetings. The General Council has met on 14 occasions during the year. The Council's report also states how it has conducted its controlling function.

The members of the General Council as of 19 October 2010 are Johan Gernandt (Chairman), Sven-Erik Österberg (as of 31 May 2011, Vice Chairman as of 22 June 2011), Peter Egardt, Sonia Karlsson, Bertil Kjellberg, Anders Karlsson, Gun Hellsvik, Lena Sommestad, Allan Widman, Peter Eriksson and Roger Tiefensee (as of 14 October 2011). The deputy members are Hans Birger Ekström, Fredrik Olovsson (as of 4 May 2011), Ulf Sjösten, Ann-Kristine Johansson, Chris Heister, Bosse Ringholm, Per Landgren (as of 25 August 2011), Catharina Bråkenhielm, Christer Nylander, Agneta Börjesson (as of 16 December 2011) and Håkan Larsson.

The General Council's tasks

The General Council appoints the members of the Executive Board and decides on their salaries and other terms of employment. It also adopts the Riksbank's Rules of Procedure and decides on the design of banknotes and coins. The General Council also has the task of regularly monitoring the Riksbank's activities and how the Executive Board manages its business. One of the ways the General Council can perform its supervisory role is through the Chairman and Vice Chairman having the right to attend and speak at the Executive Board meetings, though not the right to vote or make proposals. The General Council has an audit function that, among other things, examines how members of the Executive Board perform their duties and examines the Riksbank's closing procedures with regard to the calculation of the Riksbank's profits. The work of the audit function is performed by an external authorised public accountant. The General Council has in recent years broadened its activities and as a result of this has more actively exercised its control function.

The General Council submits proposals to the Riksdag concerning the allocation of the Riksbank's profits and makes a recommendation to the Riksdag with regard to the discharge from liability of the members of the Executive Board. The General Council's statement includes an evaluation of how the Executive Board members have performed their tasks. The General Council intends to develop forms for, and the scope of, the assessment and the statement, which are attached to the proposal on the allocation of profits.

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

The Chairman and Vice Chairman report to the Riksdag Committee on Finance as a rule twice a year.

The General Council's activities in 2011

During the year, the General Council held 14 meetings.

The General Council made decisions during the year on the Executive Board's terms of employment and on the external assignments of the members of the Executive Board. The General Council also discussed and decided on a change in the regulations regarding remuneration to Executive Board members during the qualification period after they have left their posts.

New members of the Executive Board

The General Council decided at its meeting in June to reappoint Stefan Ingves as Governor of the Riksbank and Chairman of the Executive Board for a period of six years with effect from 1 January 2012. At the same meeting, the Council decided on salary and other terms of employment for the Governor.

In December the General Council decided to appoint Kerstin af Jochnick and Per Jansson as deputy governors with a term of office of six and five years respectively with effect from 1 January 2012. Decisions on salary and other terms were made at the same meeting. The General Council also decided to appoint Kerstin af Jochnick as First Deputy Governor of the Riksbank, with effect from 1 January 2012.

Communications with the Government

During the year the Executive Board has consulted with the General Council on communications with the Government, which included exemptions from certain provisions in the Public Procurement Act and also an increase in Sweden's quota in the International Monetary Fund.

The work on designing new banknotes and coins

Four members of the General Council and four external experts make up the Drafting Committee for the Design of Banknotes and Coins. The group is



Vice Chairman Sven-Erik Österberg and Chairman Johan Gernandt of the General Council in Bancofullmäktige assembly hall in the old Riksbank building at Helgeandsholmen.

headed by General Council member Peter Egardt. The other group members from the General Council at the end of the year were Allan Widman, Sonia Karlsson and Anders Karlsson. The experts in the group are the State Herald of Sweden, the Head of the Royal Coin Cabinet and one representative each from the National Museum of Fine Arts and the Royal Swedish Academy of Fine Arts. The group has the task of drafting questions relating to the graphic and artistic design of banknotes and coins in general.

The General Council received regular information over the year on the continuing work on a new series of Swedish banknotes and coins. More information on this can be found in the box “New banknote and coin series”.

Follow-up of the work of the Executive Board

Part of the General Council’s control function was exercised in that the Chairman and Vice Chairman of the General Council followed the work of the Executive Board during the year. For instance, they used their right to participate in the Executive Board meetings and in a number of informal meetings.

The members of the Executive Board normally participated in the General Council meetings and regularly contributed accounts of important decisions and events in the Riksbank’s activities. Reports were submitted on current monetary policy and the work of overseeing the stability of the financial system. The General Council also received regular information on the state of the financial markets, in Sweden and in Europe and also globally.

The General Council received regular information on the Riksbank’s budget and business plan, as well as the regular follow-up of risks and performance in asset management, the outcome of activities in other respects and the activities of the internal audit department. The General Council was also informed of the Executive Board’s decision to outsource IT activities that are not specific to the Riksbank and of the Executive Board’s decision to establish a compliance function at the Riksbank. In April the General Council received information on the findings of the Riksbank’s commission of inquiry into risks on the Swedish housing market.

Moreover, the General Council received information on the consultation responses decided on by the Executive Board during the year. The General Council and the Executive Board also each submitted a consultation response within their respective areas of responsibility on the Riksdag Committee on Finance’s external evaluation of the Riksbank’s monetary policy and work with financial stability 2005–2010. The evaluation was made by Charles Goodhart and Jean-Charles Rochet. The General Council wrote in its consultation response that it welcomed the report’s predominantly positive assessment of the Riksbank’s work with monetary policy and financial stability, as well as its views and suggestions for improvements in certain areas. In its response, the General Council emphasised how important it is that the Riksbank’s work with monetary policy and financial stability is carried out efficiently and with a high level of competence. The General Council also expressed pleasure that the evaluators’ recommendations were in line with the submission the Riksbank made to the Riksdag in 2010 and which subsequently resulted in the setting-up of the Financial Crisis Committee. In conclusion, the General Council wrote that at present there was no reason to make changes to the division of responsibilities among the members of the Executive Board.

In November the General Council decided on amendments in the Riksbank’s Rules of Procedure. The changes were justified primarily by new provisions in the Sveriges Riksbank Act regarding internal controls. In connection with this decision, the General Council also received information on the Executive Board’s decision to amend the Riksbank’s Instructions.

The Executive Board also provided information on important international meetings and on important discussions in general within various international bodies. The General Council also received in-depth information on the new international commissions to which Governor Stefan Ingves has been appointed.

As a supplement to the information given at the meetings, the Executive Board invited the General Council to breakfast meetings on a couple of occasions, to provide direct information after the monetary policy decisions that were made between General Council meetings.



New banknote and coin series

It is the General Council of the Riksbank that has the task of deciding on the design of banknotes and coins. The Council has appointed a Drafting Committee for the Design of Banknotes and Coins to prepare these issues.

Banknotes

The Drafting Committee began work as early as 2009, looking at themes and motifs for the new banknote series, by inviting a number of authorities and organisations to take stock of possible themes. The general public has also been given the opportunity to present proposals regarding the design of the banknote series, and around 500 suggestions for motifs were received. Most suggestions were that the motif for the banknotes should be well-known people, and Astrid Lindgren was the most common suggestion, followed by Alfred Nobel and Dag Hammarskjöld.

The Drafting Committee presented its proposals regarding motifs and themes in March 2011, and the General Council decided in April to pursue the Committee's proposal. The theme of the new banknote series will also be based on personal portraits, as it is considered easy to associate to people and it has proved difficult to counterfeit portraits convincingly. A further theme, Swedish nature and environment, will be included as nature and environmental values are strongly linked to Sweden. Finally, the lesser coat of arms "three crowns" will be the heraldic symbol used on all of the banknotes.

The Drafting Committee's reasons for the proposal were that

- the common denominator should be cultural achievements in a broad sense,
- the people chosen should have been active in modern times and had most of their active life in the 20th century,

- the nature and environment motifs should be linked to the people,
- the people should be connected with different parts of the country so that the nature and environment theme will represent different parts of Sweden,
- the denominations should alternate between portraits of women and men, and that
- the person who is most popular with the general public should be on the banknote used the most, which is the 20-krona note.

This led to the proposal and decision outlined in the table below.

The General Council decided to announce a design competition for the design of the new banknotes. The competition jury, which was appointed by the General Council, consists of the four General Council members in the Drafting Committee and two artistic experts. The General Council members are Peter Egardt (Chairman), Anders Karlsson, Sonja Karlsson and Allan Widman. The artistic experts are Jordi Arkö and Karin Granqvist. The competition is held in two stages. At the beginning of October 2011 the jury of the design com-

petition decided which eight applicants qualified to go on to stage 2. In this stage of the competition the eight selected applicants have the opportunity to present a proposal for the design of the six banknote denominations. These are to be presented at the end of January 2012, after which the jury will begin its work on selecting a winner. The Riksbank intends to conclude the competition no later than April 2012.

Coins

"Sweden's head of state" will remain the theme for Swedish coins. In addition to the denomination, the text "Sverige" (Sweden) and the year of issue will be shown on the coin. The artist's and the Governor's initials, as well as the first letter of the place of issue will be retained, and in addition the lesser coat of arms may be included on the coins.

The design of the new coins will be decided after proposals have been received from a number of selected designers, without any special competition.

The work with the new banknote and coin series is also described in the chapter "Annual Report for Sveriges Riksbank 2011".

Denomin- ation	Portrait	Nature or environment motif	Motive for choice of nature or environment motif
20 krona	Astrid Lindgren	Småland	Grew up in Vimmerby and took many of her literary motifs from this region.
50 krona	Evert Taube	Bohuslän	Grew up in Västergötland and many of his songs are inspired by the Bohuslän archipelago.
100 krona	Greta Garbo	Stockholm	Grew up in the Södermalm district of Stockholm.
200 krona	Ingmar Bergman	Gotland	Lived on Fårö, an island off Gotland, during the latter part of his life.
500 krona	Birgit Nilsson	Skåne	Grew up in Västra Karup in Skåne.
1 000 krona	Dag Hammarskjöld	Lappland	Was very fond of Lapland and the Swedish mountains.



(M) = Moderate Party
 (S) = Social Democratic Party
 (FP) = Liberal Party
 (MP) = Green Party
 (C) = Centre Party

*Johan Gernandt (M),
Chairman
Member of the Swedish Bar
Association, Law firm Vinge
Chairman, Arbitration
Institute of the Stockholm
Chamber of Commerce*

*Sven-Erik Österberg (S),
Vice Chairman
Member of the Riksdag
Former minister*



*Peter Egardt (M)
County Governor,
County of Uppsala
Chairman, Swedish National
Space Board and Swedish
National Defence College*

*Sonia Karlsson (S)
Former Member of the Riksdag
Member of the Swedish Bar
Association, Law firm
Berggren & Stoltz*

*Bertil Kjellberg (M)
Former Member of the Riksdag
Member of the Swedish Bar
Association, Law firm
Berggren & Stoltz*



*Anders Karlsson (S)
Member of the Riksdag*

*Gun Hellsvik (M)
Former Minister
Former Member
of the Riksdag
Senior Lecturer*

*Lena Sommestad (S)
Former Minister
Professor*



*Allan Widman (FP)
Member of the Riksdag
Member of the Swedish
Bar Association*

*Peter Eriksson (MP)
Member of the Riksdag
Chairman, Committee
on the Constitution
Economist*

*Roger Tiefensee (C)
Member of the Riksdag*

Other

In 2011 the General Council made study visits to both Crane AB and the building site of the new Riksbank office at Broby.

The General Council received a special account on the activities and organisations of the Riksbanksen Jubileumsfond at its meeting in September.

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

The General Council's examination of the Riksbank's activities is carried out by its audit function. The commission of audit function to the General Council is held by BDO Nordic Stockholm AB during the period April 2010 – March 2012. In December 2011 the General Council decided to give the Chairman and Vice Chairman the task of either extending the agreement with BDO or signing a new agreement with one of the firms of accountants procured under the Riksbank's general agreement regarding auditing services.

The General Council annually establishes an audit plan for its audit function. In accordance with this plan, the audit function carried out examinations in 2011 of the Riksbank's proposal for the allocation of profits and the Riksbank's handling and control of the value of the gold, as well as of the internal controls for printing and delivering banknotes.

The General Council received a new presentation in February of the contents of the auditor's report on the management of the foreign currency reserve. The focus was on how the organisation has managed the restrictions the Executive Board decided on and on the measures taken by the Riksbank as a result of the auditor's report. A follow-up audit of the measures taken after the 2010 report regarding the management of the foreign currency reserve and IT security was presented to the General Council in December.

The General Council also received information on the Swedish National Audit Office's annual audit of the Riksbank's activities and the measures taken as a result of the Swedish National Audit Office's report.

During the General Council's regular follow-up of the work of the Executive Board members in 2011, nothing emerged to give reason for the General Council to direct any criticism against the performance of their duties.

■ Proposal for the allocation of profits for 2011

Under Chapter 10, Section 3 of the Sveriges Riksbank Act (1988:1385), the General Council shall present a proposal to the Riksdag (the Swedish Parliament) and the Swedish National Audit Office regarding the allocation of the Riksbank's profits. The General Council applies a principle for calculation that can be expressed in brief by stating that 80 per cent of the past five years' average profit shall be transferred to the Treasury. The profit is calculated excluding exchange rate and gold evaluation effects, but including the price effects reported in the revaluation account in the balance sheet.

When reviewing the Riksbank's management for the year 2010 (2010/11 FiU23) the Riksdag approved the proposal put forward by the General Council that the allocation of profit for 2010 should be based on the 1988 principle for the allocation of profits with the supplements to the principle made since then. The principle implies in brief that 80 per cent of the past five years' average profit, excluding the exchange rate and gold value effects, but including the price effects reported in the revaluation account on the balance sheet, shall be transferred to the Treasury. The exchange rate and gold value effects and normally 10 per cent of adjusted average profit shall be transferred to or from the contingency fund. The amount remaining after this shall be transferred to or from the balancing fund. The General Council applies the same basis for calculation for 2011.

In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council has received a report for the 2011 financial year from the Executive Board. The General Council notes that on the basis of current accounting policies, the Riksbank reports a profit for 2011 amounting to SEK 3 930 million. In accordance with the 1988 principle for the allocation of profits and the supplements to the principle made since then, the following adjustments are made to the accounting profit when calculating the result used as a basis for the transfer:

- The accounting profit was negatively affected by an exchange rate loss of SEK 847 million. In accordance with the allocation of profits principle, this loss is excluded when calculating the result on which the transfer to the Treasury is based.
- The accounting profit was not affected by any gold value effect and for that reason no such adjustment was made.
- A price profit of SEK 5 579 million was recorded in the revaluation account in the balance sheet as a result of the accounting policies that were to some extent changed in 2004. The General Council has included this gain when calculating the allocation of profits in accordance with the principle.

The General Council proposes as stated below a transfer to the Treasury of SEK 7 500 million.

The foreign exchange loss plus 10 per cent of the adjusted average profit, which corresponds, net, to SEK 87 million, is transferred to the contingency fund. As the proposed transfer and allocation to the contingency fund is higher than the accounting profit, it is proposed that SEK 3 657 million be transferred from the balancing account, in accordance with the allocation of profits principle. The calculation on which the proposed allocation of profit is based can be found in the table on page 13.

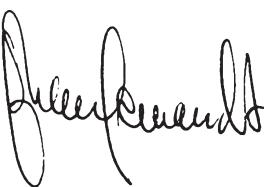
The audit function of the General Council has examined the basis for calculating the profit allocation proposal. The audit function did not find any reason for objection.

Profit for 2011, before appropriations, amounts to SEK 3 930 million, and the General Council decided on 10 February 2012 to propose the following allocation of the Riksbank's profit:

SEK million	
Transfer to the Treasury	7 500
Transfer to the Riksbank's contingency fund	87
Transfer from the Riksbank's balancing fund	3 657

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

Stockholm, 10 February 2012



Johan Gernandt
Chairman

Transfer calculation of the Riksbank's profits 2011

SEK million

1 CALCULATION OF THE RIKS BANK'S TRANSFER TO THE TREASURY

Adjustment of the year's profit

Net interest income	4 134
Foreign exchange rate loss	-847
Gold value effect	-
Other expenses and income	643

Profit for 2011

Profit for 2011	3 930
Less: Foreign exchange rate loss	847
Plus: Price gain recorded on the balance sheet	5 579

Adjusted profit for 2011

Adjusted profit for 2011	10 356
--------------------------	--------

Calculation of average adjusted profit

Adjusted profit for 2007	7 061
Adjusted profit for 2008	18 318
Adjusted profit for 2009	4 192
Adjusted profit for 2010	6 777
Adjusted profit for 2011	10 356

Total adjusted profit for the past five years

Total adjusted profit for the past five years	46 704
---	--------

Average adjusted profit for the past five years

Average adjusted profit for the past five years	9 341
---	-------

Calculation of transfer amount

80 % of the average adjusted profit	7 473
Rounding off to SEK 100 million	27
Transfer 2011	7 500

2 CALCULATION OF TRANSFER TO THE RIKS BANK'S CONTINGENCY FUND

Transfer to the Riksbank's contingency fund

Foreign exchange rate loss	-847
10 % of the average adjusted profit	934
Total	87

3 CALCULATION OF TRANSFER FROM THE RIKS BANK'S BALANCING FUND

Transfer from the Riksbank's balancing account

10 % of the average adjusted profit	934
Price gain recorded on the balance sheet	-5 579
Rounding off of transfer	-27
Adjusted profit less average profit	1 015
Total	-3 657



Annual Report for Sveriges Riksbank 2011

■ Statement by the Governor

We now have another year of international financial unease behind us. It was a year when economic developments were marked by the uncertainty over sovereign debt in several countries in the euro area and also in the United States. Developments on the financial markets after the summer were at times dramatic, and the economic recovery that had started in 2010 came to a halt. The political events regarding the situation in several euro countries at the end of the year also raised questions regarding the economic cooperation in Europe.

When the world's stock markets take a rollercoaster ride and uncertainty increases, we have to do what we can to secure stable economic growth in Sweden. It is therefore important that the Swedish economic policy system continues to function smoothly. Sweden has learnt from the mistakes made in the past and therefore has a much more favourable position now than many other countries. This is something we must safeguard in these troubled times. The Riksbank's work with monetary policy and financial stability should of course contribute to enabling our country to retain this favourable position.

Increased preparedness and changed monetary policy

For the Riksbank, the financial crisis 2008–2009 has confirmed the importance of having frequent contacts with market participants, other authorities and central banks, and of keeping up-to-date with the latest information on current events. This is particularly important as Sweden is a small, open economy and thus affected in many ways by developments in the world at large. For instance, Swedish banks are dependent on obtaining funding in the international financial markets. During 2011 we therefore intensified our contacts with the banks, other market agents and central banks to continuously have a clear picture of what is happening and how the Swedish financial sector is affected. We also increased our preparedness to be able to support the Swedish banking system if this should prove necessary. However, the Swedish banks had no problems with access to market funding during the year, as they are well-capitalised from an international perspective and have very limited exposure to the countries with sovereign debt problems. They also strengthened their liquidity to be better-equipped to deal with problems on the international financial markets. We therefore did not need to take any special measures.

We carefully monitored economic developments in Sweden and abroad to be able to use monetary policy to stabilise both inflation and the real economy. For instance, given the continuing good growth and rising resource utilisation in Sweden, we raised the repo rate at all of the monetary policy meetings up to and including July, when the repo rate was set at 2.0 per cent. Our repo-rate decisions during the rest of the year were a response to Swedish growth slowing down as the result of weaker growth abroad and increasing unease on the financial markets. We therefore held the repo rate unchanged at 2.0 per

cent until the latter part of December, when we cut the rate to 1.75 per cent.

In addition to the regular policy work, we continued to actively promote good conditions for conducting monetary policy and making analyses of financial stability in the best possible way. We took part in the ongoing work on studying and influencing future regulations and improving the supervision of the financial system, both at home and abroad. Moreover, we began a collaboration with Finansinspektionen (the Swedish Financial Supervisory Authority) and Statistics Sweden to improve efficiency in the data collection process and the production of financial statistics.

Focus on clarity and credibility

The financial crisis has also confirmed that we need to constantly communicate how the Riksbank is thinking and why, and to do this as clearly and credibly as possible. This need was just as great in 2011 as during the more acute crisis in 2008–2009. I am therefore very pleased that we could extend our contacts with the Riksdag (the Swedish parliament), researchers and market agents. We took part in 13 hearings at the Riksdag committees, which is considerably more than in previous years. At these hearings we discussed, for instance, monetary policy assessments, developments on the international financial markets and the proposed framework for bank resolution in the EU. We met with several Riksdag members and researchers at our own seminars on the material for assessing monetary policy and the inquiry into risks in the Swedish housing market. These seminars were broadcast on the Riksbank's web TV so that all those interested could follow the discussions. At the end of November we also held our first meeting with market analysts to discuss the conclusions in the second Financial Stability Report of the year.

To increase clarity regarding our assessments of financial stability, we also defined more precisely the recommendations the Riksbank has been directing at participants in the financial system since 2010. These recommendations imply a desirable "course" that the banks and other participants are encouraged to follow to reduce risks and weaknesses that may affect the stability of the financial system. More precise wording can more easily convince the participants of the need for change if we consider this to be necessary in a given situation. Additionally, it gives us a better basis to follow up to what extent the recommendations are observed.



Governor Stefan Ingves on his way to meet members of the Riksdag for a public hearing at the Riksdag Committee on Finance.

From internal consolidation ...

The past year has once again demonstrated that the world around us is constantly changing, which makes new demands and raises new expectations of the Riksbank. Over the years we have built up knowledge and expertise to support our main tasks on the basis of experiences and lessons learnt going back to the crisis in the early 1990s. We have also reviewed and streamlined other activities to give priority to investment in competence and communication within our main tasks. This consolidation was in a final phase in 2011, after we had reviewed and clarified our role in both policy and operational activities, invested in development of competence and outsourced some of our activities. Our decision in principle to outsource parts of the Riksbank's IT operations over the coming years to secure a more modern and functional IT support is one stage in this process.

In our operational activities we continued the extensive work on building a new cash handling office and producing a new series of banknotes and coins. The Riksbank made several important decisions on the design of the new banknotes and coins, and we are now attending to the practical work on how the new banknotes and coins will be implemented. This is an important project, which will make considerable demands on our resources for several years to come.

... to development of our activities

After the recent years' financial turmoil, the Riksbank is facing new challenges in both monetary policy and our work with financial stability. We – and others – therefore worked during the year on evaluating our role and our tools. An important contribution was provided by professors Goodhart and Rochet in the evaluation of the Riksbank's work they made on behalf of the Riksdag Committee on Finance. Several of their observations are in line with the development work we have initiated while awaiting clarification of our formal mandate after the Financial Crisis Committee and the Commission of Inquiry into the Riksbank's financial independence have presented their proposals in 2012. This involves developing our activities on the basis of the current tasks by, for instance, strengthening our role and capacity in the work with financial stability, developing and adapting the conceptual framework for monetary policy and increasing the integration of the policy areas.

To succeed in this, we need, in addition to access to new statistics, to extend our cooperation with other authorities and to develop research in the field of financial stability. We therefore decided to establish, together with Finansinspektionen, a council for cooperation on macroprudential policy. We also decided to strengthen our own research and analysis capacity in the field of financial stability and to better integrate it into the policy work. In the coming years we also need to invest in developing a preparedness for dealing with financial crises on an operational basis by methodically developing and preparing tools that might be needed in a crisis situation. These tools concern both active asset management and the RIX system.

The objectives for the Riksbank's activities in the coming years are formulated in the new strategic plan we drew up in 2011. This plan will now be regularly put in concrete form in prioritised action plans in future planning processes. Its nature as a living document is particularly relevant right now, when the future roles and tools for central banks are being discussed intensively, both in Sweden and abroad.

We are facing new, exciting times at the Riksbank. I am therefore happy to have been given the confidence of the General Council to lead the Riksbank for a further six years. This is particularly gratifying as our most recent employee survey showed that the Riksbank's employees continue to be very satisfied with their workplace. With the know-how and commitment of our employees, we are well-equipped to manage the expected and unexpected challenges ahead of us.

Stefan Ingves

The year at a glance

During 2011, the Riksbank's activities were affected by the unease on the financial markets resulting from sovereign debt problems in several countries. The following economic outcomes as well as measures and events had a great impact on the Riksbank's activities:

- The economic recovery continued all around the world at the beginning of the year. At the same time, growth in Sweden slowed down somewhat in relation to the strong recovery after the financial crisis. During the summer, unease over sovereign debt developments in the United States and several countries in the euro area increased, and growth prospects abroad deteriorated. This unease affected developments on the financial markets, and stock markets around the world fell substantially. The Swedish economy therefore weakened and began to slow down towards the end of the year.
- As a result of the increased unease on the financial markets, the Riksbank increased its preparedness to take action if the uncertainty on these markets were to affect the financial system in Sweden. However, the Swedish banks were able to obtain funding in the financial markets throughout the year. It was therefore not necessary for the Riksbank to take any special measures to safeguard the liquidity of the banking system.
- The Riksbank raised the repo rate at all three monetary policy meetings during the first half of the year, from 1.25 per cent at the beginning of the year to 2.0 per cent in July. After that the Riksbank held the repo rate unchanged at 2.0 per cent up to the monetary policy meeting in December, when the repo rate was cut by 0.25 percentage points. At the end of the year, the repo rate was thus 1.75 per cent. The repo-rate path was raised slightly in February, compared with the Riksbank's earlier assessment, and then left unchanged until September, when it was adjusted downwards. After that the repo-rate path was lowered on a further two occasions.
- Inflation measured as the change in the consumer price index (CPI) was 3.0 per cent during the year. Inflation declined from 2.5 per cent in January to 2.3 per cent in December. The underlying inflation rate measured as the CPI with a fixed mortgage rate (CPIF) was 1.4 per cent on average over the year. The Riksbank's assessment in December was that total production in Sweden (measured as GDP) increased by 4.6 per cent in 2011. Unemployment declined from 8.4 per cent in 2010 to 7.5 per cent in 2011.



- The Riksbank took part in the continued reform work regarding future financial regulations both internationally and in Sweden. The Riksbank also worked on developing its communication by further defining the recommendations the Bank has been directing at participants in the financial system since 2010.

- The work on modernising the Swedish banknote and coin series entered a new phase, in that the Riksbank took several decisions regarding the artistic and technical design of the new banknotes and coins.
- During the year, the Riksbank published, among other things, three Monetary Policy Reports, three Monetary Policy Updates, material for the evaluation of monetary policy, two Financial Stability Reports and an annual publication about the Swedish Financial Market. In addition, the Riksbank produced two special reports: one that presented the results of an inquiry into risks in the Swedish housing market and one that contained an economic analysis of capital ratios in Swedish banks.

The Riksbank is located in Stockholm city, in a building specially designed for the central bank. It is easy for Riksbank employees to get to work by public transport, by bike or on foot.

- The Riksbank reported a profit of SEK 3.9 billion. Compared with 2010, the profit increased by SEK 3.4 billion, mainly because the unrealised exchange rate losses were SEK 6.9 billion lower than in 2010. At the same time, interest income decreased by SEK 1.2 billion as interest on bond holdings fell during the year, and by SEK 1 billion because extraordinary lending due to the financial crisis completely ceased during the year.
- The General Council decided in June 2011 to reappoint Governor Stefan Ingves to head the Executive Board of the Riksbank for a further six years with effect from 1 January 2012. In December, the General Council decided to appoint Kerstin af Jochnick First Deputy Governor and Per Jansson Deputy Governor. The two new Executive Board members took up their posts on 1 January 2012, after First Deputy Governor Svante Öberg and Deputy Governor Lars Nyberg had left their posts at the turn of the year 2011/12.

The year in figures

The Riksbank's profit for 2011 amounts to SEK 3.9 billion, which is an increase of SEK 3.4 billion compared with 2010. The increase is largely due to the unrealised exchange rate losses recognised in the profit for the year as a result of the write-down of the foreign currency holding being 6.9 billion lower than in 2010. At the same time interest income decreased by SEK 1.2 billion as interest on bond holdings fell. Furthermore, extraordinary lending due to the financial crisis ceased completely during the year, which means that interest income decreased by a further SEK 1 billion.

The market value of the gold and foreign exchange reserves increased in 2011 from SEK 301 billion to SEK 323 billion, which is mainly due to the rise in the price of gold. In addition, the value of the Riksbank's bond holdings increased because market rates fell.

As a consequence of the development of the market value of the gold and currency reserves the value of the Riksbank's total assets increased from SEK 327 billion to SEK 348 billion.

Key figures

	2009	2010	2011
At year-end			
Profit for the year (SEK billion)	14.2	0.5	3.9
Gold and foreign currency reserves (SEK billion)	313	301	323
Total assets (SEK billion)	709	327	348
Average number of employees (full-year equivalents)	351	339	332
Repo rate (per cent)	0.25	1.25	1.75
Short-term interest rate (three-month T-bills, per cent)	0.20	1.32	1.40
Long-term interest rate (ten-year government bonds, per cent)	3.30	3.28	1.62
On average			
GDP (percentage change)	-5.2	5.6	4.6
Unemployment (per cent)	8.3	8.4	7.5
Inflation, CPI (percentage change)	-0.5	1.2	3.0
Inflation, CPIF (percentage change)	1.7	2.0	1.4

Note: The table presents the actual outcome for all items with the exception of GDP data for 2011, which is stated according to the Riksbank's forecast from December 2011. CPIF is estimated as CPI with a fixed mortgage rate.

■ Maintaining the value of money – price stability

The Swedish economy performed well during most of 2011. During the first half of the year the Riksbank continued to adjust the repo rate towards long-term normal levels, raising it from 1.25 to 2.0 per cent. However, Sweden was increasingly affected by the growing unease over developments in public finances in several other countries and by the worsening global economic outlook during the second half of the year. The Riksbank therefore held the repo rate unchanged at 2.0 per cent in September and October, and cut the repo rate to 1.75 per cent in December. Average inflation, measured as the annual change in the CPI, was 3.0 per cent in 2011. The annual average for the CPIF, where mortgage rates are held constant, was 1.4 per cent. According to the Riksbank's forecast in December, GDP increased by 4.6 per cent during the year and the situation in the labour market improved.

Under the Sveriges Riksbank Act, the Riksbank shall maintain price stability, which means that inflation should be low and stable. The Riksbank has specified the target for inflation as 2 per cent a year, measured as the annual percentage change in the Consumer Price Index (CPI).

At the same time as monetary policy is aimed at attaining the inflation target, it is also to support the objectives of general economic policy with a view to achieving sustainable growth and high employment. The Riksbank thus conducts what is generally referred to as flexible inflation targeting. At the time of each monetary policy decision the Executive Board decides on the repo rate level until the next monetary policy meeting, and makes an assessment of how the repo rate needs to develop in the next few years for monetary policy to be well-balanced. A well-balanced monetary policy is normally a question of finding an appropriate balance between stabilising inflation around the inflation target and stabilising the real economy. This does not mean that the Riksbank neglects the fact that the inflation target is the over-riding objective. The repo rate determines what the banks have to pay to borrow from the Riksbank, or what they receive in return when they deposit funds with the Riksbank. In that way, other interest rates in the economy are also affected, and by extension economic activity and inflation.

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

The Riksbank's monetary policy work and decision-making processes

Economic reality is complex. In its forecasting the Riksbank therefore uses various models that are based on historically observed correlations. The models are of course simplifications of reality but are necessary to achieve consistent forecasts. The model results are then combined with assessments made by both experts in various fields and by the members of the Executive Board.

The Executive Board holds six ordinary monetary policy meetings per year, when it decides on the repo rate. In connection with three of these, the Riksbank publishes a comprehensive Monetary Policy Report that contains detailed forecasts for the economy and inflation as well as assessments of the repo rate in the period ahead. After the three other meetings, a Monetary Policy Update is published, which contains forecasts for the same variables as in the Monetary



The independent status of the Riksbank places great demands on the transparency of the bank's activities so that they can be examined and evaluated.

A high level of transparency and regular evaluations are necessary to enable the Riksdag and the public to make sure that the Riksbank is performing to a high standard.

Evaluations of monetary policy and the work with financial stability are important in enabling the Riksbank to further develop and improve its activities in these fields.



To succeed in its tasks, the Riksbank must keep up-to-date with what is happening in the economy. Riksbank employees therefore have regular meetings with participants in the financial markets, and with other authorities and central banks around the world.

Policy Report but gives less detailed descriptions of the forecasts. After every monetary policy meeting, the Riksbank publishes a press release and holds a press conference. The press release states whether any member of the Executive Board has entered a reservation against the majority assessment of the economic situation and against the decisions on the repo rate and the repo-rate path, which is the forecast for the repo rate in the next few years. About two weeks after every monetary policy meeting, the Riksbank publishes minutes of the meeting, containing detailed accounts of the discussion at the monetary policy meeting, and attributing the comments to the Board members.

The Riksbank is also obliged by law to submit a written report on monetary policy to the Riksdag at least twice a year. The first report consists of specific material for assessing monetary policy, compiled for the Riksdag Committee on Finance at the beginning of the year. The second report consists of the third Monetary Policy Report for the year. The Governor of the Riksbank also visits the Riksdag Committee on Finance to answer questions about monetary policy.

Activities in 2011

During the first half of the year the normalisation of monetary policy begun in 2010 continued. The Riksbank raised the repo rate at all three monetary policy meetings, from 1.25 per cent at the beginning of the year to 2.0 per cent in July. After that the Riksbank held the repo rate unchanged at 2.0 per cent at the monetary policy meetings in September and October. In December the Riksbank cut the repo rate to 1.75 per cent.

The Riksbank's work on developing its monetary policy analysis focused in 2011 on the lessons learned from the financial crisis. The results of the inquiry into risks in the Swedish housing market formed an important basis for this work. The Committee on Finance's external evaluation of the Riksbank's monetary policy and work with financial stability also contributed basic material, for instance, in the discussions the Riksbank had with Finansinspektionen (the Swedish Financial Supervisory Authority) regarding the possibilities to detect and prevent systemic risks that threaten financial stability (what is known as macroprudential supervision). How this macro-prudential supervision interacts with monetary policy is an important aspect of the continued development of the Riksbank's monetary policy analysis.

Inquiry into risks in the Swedish housing market

The findings of the Riksbank's inquiry into risks on the Swedish housing market were published in April 2011. The inquiry was appointed in 2010 as a joint project between the Monetary Policy and Financial Stability Departments to shed light on the relationship between the housing market and the Riksbank's tasks and objectives (see also the description in the section "A safe and efficient payment mechanism").

From a monetary policy perspective, the inquiry aimed to illustrate, for instance, how central banks should relate to developments in asset prices and what role monetary policy can and should have in influencing an undesirable development in credit volumes and property prices. Although the inquiry has not led to clear-cut answers to these questions, it has provided in-depth insights into many fields, and comprises a useful summing up of the current state of knowledge. Its results have also led to methodological changes in the Riksbank's analyses of developments in the housing market shown in the background material produced prior to monetary policy decisions. This applies more specifically to changes in how consumption, savings, indebtedness and developments in asset prices are dealt with in the forecasting process. The work in the commission has also highlighted which areas should be prioritised to improve access to data as well as documentation in the forecasting work.

A further consequence of the inquiry's work is that the cooperation between the Monetary Policy and Financial Stability Departments has been strengthened. This applies, for instance, to the work on better coordinating the use of data and the calculation assumptions used in both departments' policy work. The conclusions of the inquiry have also led to the departments initiating projects aimed at building up databases with detailed information on households' assets and liabilities (see the box "Statistics" at the end of this section).

Evaluation of the Riksbank's monetary policy and work with financial stability 2005–2010

In November 2011 the Executive Board and General Council of the Riksbank each presented a consultation response regarding the Committee on Finance's report "Evaluation of the Riksbank's

monetary policy and work with financial stability 2005–2010". The report, which was compiled on behalf of the Committee by professors Charles Goodhart and Jean-Charles Rochet, comprises an evaluation of the formulation of monetary policy in Sweden and its results and also the results of the Riksbank's work with financial stability. Moreover, the report contains a number of recommendations regarding the Riksbank's monetary policy strategy and decision-making process, as well as the institutional and legal frameworks for the work on financial stability.

The Executive Board stated in its consultation response that it welcomes the evaluation and it noted that the evaluators' overall assessment of the Riksbank's monetary policy and work with financial stability in the period 2005 to 2010 was predominantly positive. The Executive Board also welcomed the fact that the evaluation addressed both monetary policy and the work with financial stability.

With regard to monetary policy, the Executive Board agreed with the evaluators' assessment that it is important that the Riksbank clearly communicates the uncertainty over future economic developments. However, the Executive Board did not agree with the proposal to base the Riksbank's forecast for the repo rate in the longer run on market expectations instead of the Board's own assessment. Nor did the Executive Board agree with the conclusion in the evaluation that the policy rate decision should be announced earlier in the decision-making process and that the purpose of the monetary policy meeting needs to be reviewed.

The Executive Board's response is part of a large consultation process in the Riksdag. After all of the consultation responses on the evaluation have been received by the Committee on Finance, the Committee will be able to begin its assessment of the evaluators' recommendations. Parallel to this work, the Financial Crisis Committee is working on a review of the regulations for managing financial crises. The Financial Crisis Committee, which was appointed in February 2011, is expected to conclude its assignment in August 2012. Pending the legislative changes that may result from the Committee on Finance's evaluation and the Financial Crisis Committee's review, the Riksbank and Finansinspektionen signed a Memorandum of Understanding in January 2012 on establishing a temporary council for cooperation on macro-prudential policy. The council will provide a forum where one can, for instance, analyse how the use of new tools to detect and prevent systemic risks that threaten financial stability might affect interest rates, and thereby whether and if so how, the means of control for macroprudential policy and monetary policy need to be coordinated.

The Riksbank's handling of the financial crisis was also analysed on behalf of the Centre for Business and Policy Studies (SNS) by three researchers, Ralph Bryant, Dale Henderson and Torbjörn Becker. Their



report "Maintaining Financial Stability in an Open Economy: Sweden in the Global Crisis and Beyond" was presented by SNS at a conference in November, when Governor Stefan Ingves also commented on the report. The researchers highlighted, among other things, the need to better integrate the financial system into the monetary policy analyses. The report also suggests different methods for the Riksbank to more clearly communicate the uncertainty in its forecasts during periods of crisis.

The reports' conclusions regarding the Riksbank's work with financial stability are presented in the section "A safe and efficient payment mechanism". That section also contains an account of the Riksbank's consultation responses and other measures in the field of financial stability with regard to the recent evaluations.

Monetary policy decisions in 2011

The Riksbank raised the repo rate at all three monetary policy meetings during the first half of the year, from 1.25 per cent at the beginning of the year to 2.0 per cent in July. The increases in the repo rate decided by the Executive Board at the monetary policy meetings in February, April and July were justified by the need to stabilise inflation around 2 per cent and at the same time to avoid resource utilisation becoming too high further ahead. The repo-rate path was also adjusted upwards in February. However, at the monetary policy meetings in April and July the repo-rate path was held unchanged in relation to the path published at the respective previous meeting. The forecast of the repo-rate path expressed during the first half of the year contained

The Riksbank's activities require both spearhead competence and a broad knowledge base. Many of the models and tools for economic analysis required in the Executive Board's decision-making process are developed by researchers employed at the Riksbank.

the expectation that the repo rate would also be raised during the second half of 2011.

During the summer, however, unease over developments in the sovereign debt in the United States and in several countries in the euro area increased, and growth prospects abroad deteriorated. This unease affected developments on the financial markets and stock markets around the world fell substantially. Growth in the Swedish economy was therefore expected to slow down more than the Riksbank had previously assumed in its forecasts. In September and October the Riksbank therefore decided to hold the repo rate unchanged at 2.0 per cent, and in December the repo rate was cut to 1.75 per cent. The repo-rate path was also gradually adjusted downwards at these three meetings.

The repo rate was raised by 0.25 percentage points in February

The Swedish economy continued to perform strongly at the end of 2010 and in early 2011. The recovery was faster in Sweden than in many other countries, and various forward-looking indicators pointed to a strong performance further ahead, as well.

The National Accounts showed that GDP in Sweden grew rapidly in the third quarter of 2010. The upturn was broadly based and covered both exports and domestic demand. Swedish exports benefitted in particular from the continuing growth in world trade, while investment in machinery and housing increased and household consumption continued to rise. The labour market also continued to show a positive development and the number of persons employed increased at the end of 2010. Various indicators such as the Purchasing Managers' Index and the Economic Tendency Indicator pointed to strong growth. The Riksbank therefore assessed that the strong economic development in Sweden would continue during 2011 and then slow down somewhat in 2012, which was in line with the forecast made in December 2010.

The assessment was that the recovery in the world as a whole would continue at a good pace. However, there were large regional differences in economic

developments around the world. The emerging economies in Asia were growing rapidly and in several of these countries the central banks had begun tightening their monetary policy. In the euro area the indicators pointed to a continued recovery, but there was at the same time uncertainty over the sustainability of public finances in several European countries. In the United States the recovery strengthened somewhat, but the improvement in the labour market remained slow. The euro area and the United States continued to conduct expansionary monetary policy.

The rapid growth abroad, particularly in the Asian emerging markets, contributed to rising energy and commodity prices on the world market. The higher energy and commodity prices pushed up inflation in Sweden and were expected, along with the higher food prices, to continue to affect inflation during 2011–2013. Inflation would then be affected both directly through rising prices for petrol and food, for instance, and indirectly through increased costs for companies. At the same time, the underlying inflationary pressures were low, as the krona was stronger than before and domestic cost pressures were low. But domestic cost pressures were expected to rise further ahead, as wage increases became higher and there was less spare capacity in the economy.

Resource utilisation continued to rise. Some indicators, such as the Riksbank's indicator of resource utilisation, pointed to resource utilisation already being at a normal level. At the same time, other indicators, such as the level of unemployment, pointed to spare capacity in the economy. The Riksbank's overall assessment was therefore that resource utilisation was somewhat lower than normal. During the forecast period GDP and the number of hours worked were expected to increase quickly and thus lead to an increase in resource utilisation. Resource utilisation was therefore assessed as normal or slightly above normal towards the end of the forecast period. Compared with the appraisal in December, resource utilisation was expected to be slightly higher throughout the forecast period.

Monetary policy decisions 2011

14 February The repo rate was raised by 0.25 percentage points to 1.5 per cent. The forecast for the repo rate was adjusted upwards.

19 April The repo rate was raised by 0.25 percentage points to 1.75 per cent. The forecast for the repo rate was held unchanged.

4 July The repo rate was raised by 0.25 percentage points to 2.0 per cent. The forecast for the repo rate was held unchanged.

6 September The repo rate was held unchanged at 2.0 per cent. The forecast for the repo rate was adjusted downwards.

26 October The repo rate was held unchanged at 2.0 per cent. The forecast for the repo rate was adjusted downwards.

19 December The repo rate was cut by 0.25 percentage points to 1.75 per cent. The forecast for the repo rate was adjusted downwards.

The Executive Board of the Riksbank assessed that it was appropriate to continue the sequence of increases in the repo rate that was initiated in 2010, to stabilise inflation around the target of 2 per cent and, at the same time, avoid resource utilisation becoming too high. Accordingly, the Board decided to raise the repo rate by 0.25 percentage points, to 1.5 per cent, and to adjust the repo-rate path upwards, compared with the forecast in December (see Chart 1). The Executive Board also considered that a gradual rise in the repo rate would contribute to slower growth in household borrowing and thus reduce the risk of imbalances building up in the Swedish economy.

Deputy Governor Karolina Ekholm and Deputy Governor Lars E.O. Svensson entered a reservation against the decision to raise the repo rate by 0.25 percentage points to 1.5 per cent and against the repo-rate path of the main scenario in the Monetary Policy Report. They advocated a repo rate equal to 1.25 per cent and a repo-rate path that would then gradually rise to 3.25 per cent by the end of the forecast period. Such a repo-rate path would imply a level of CPIF inflation closer to 2 per cent and a faster reduction of unemployment towards a longer-run sustainable rate.

The repo rate was raised by 0.25 percentage points in April

The recovery abroad as a whole remained good and the Swedish economy continued to perform relatively well during the spring. Both exports and domestic demand were strong. The labour market situation also continued to improve. The growth rate in the economy was expected to slow down, however, after the very strong recovery in 2010.

Growth in the world as a whole remained high, despite the natural disasters in Japan, the geopolitical unrest in North Africa and the Middle East, and the public finance problems in the euro area. The strong performance in Asia in particular, combined with the unease in the oil-producing countries, pushed up energy and commodity prices. This in turn meant

that global inflation increased further, which together with high demand led to a number of central banks in emerging economies continuing to tighten their monetary policy.

Although economic activity in the euro area increased, fiscal policy tightening was expected to dampen developments in several of these countries. As the upturn in energy prices had led to rising inflation in the euro area, the European Central Bank raised its policy rate for the first time in two years, from 1 per cent to 1.25 per cent.

In the United States, economic prospects continued to improve – companies were optimistic, employment growth was good and unemployment fell. At the same time, newly-received statistics showed that the growth in GDP had been weaker than expected during the second half of 2010. Likewise, the housing market was still weak, with falling house prices and housing investment. As a result of the rising commodity prices, which were expected to have a negative effect on growth, the forecasts for growth in the euro area and the United States were revised down slightly.

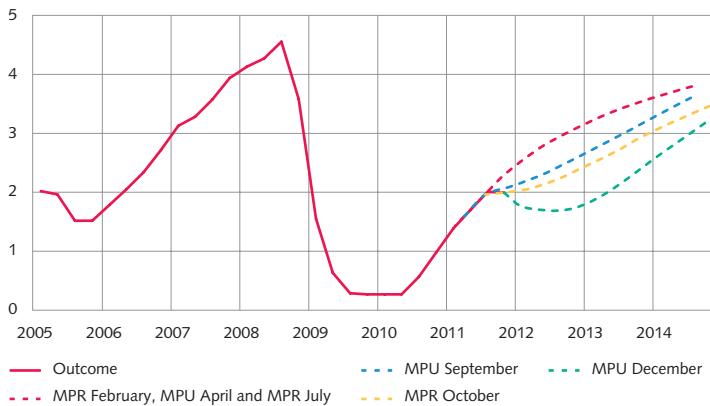
The recovery in Sweden continued, both with regard to exports and domestic demand (see Chart 2). The recovery was relatively rapid, compared with the recovery in many other countries, since the Swedish export markets continued to grow and there was thus large demand for Swedish export goods. Moreover, the potential for continued strong domestic demand was high. A relatively high level of public sector saving, together with high private sector savings, provided the scope for increased consumption. Investment had also picked up speed and was expected to continue to increase rapidly. GDP was expected to increase by 4.6 per cent during the year, and then to grow at a more normal rate. Resource utilisation was assessed to be slightly lower than normal, but was expected to rise and be normal or slightly above normal during 2012–2013.



Every year, the Riksdag Committee on Finance examines and evaluates the monetary policy conducted by the Riksbank during the preceding years. The Riksbank publishes material on which this evaluation can be based in a special report that contains comprehensive data and analyses of outcomes, forecasts, and sequences of events. In spring 2011 the Riksdag Committee on Finance assessed the monetary policy conducted in the period 2008–2010. Among other things, the Committee discussed the risks of potential conflicts between the objectives of the inflation target and the work with financial stability.

Chart 1

Repo rate and repo rate forecasts in 2011, per cent



Note: MPR denotes Monetary Policy Report and MPU denotes Monetary Policy Update. The repo rate forecasts of February, April and July are so close to each other that they are illustrated using a shared broken line.

Source: The Riksbank.

Underlying inflation in Sweden was low, which was partly because the krona had strengthened the year before and prices for food and other goods had thus increased at a slow pace, despite rising world market prices (see Chart 3). However, underlying inflation was expected to rise as economic activity strengthened. At the same time, CPI inflation was high, as mortgage rates had risen. Over the following months, CPI was expected to rise and approach 4 per cent, and then to gradually fall back towards 2 per cent at the end of the forecast period.

The Executive Board considered it necessary to gradually raise the repo rate towards more normal levels to stabilise inflation close to the target of 2 per cent and to avoid resource utilisation becoming too high. Accordingly, the Board decided to raise the repo rate by 0.25 percentage points to 1.75 per cent, and at the same time hold the repo-rate path unchanged, compared with February. The Board also considered that a gradually increasing repo rate would help slow down the growth in household borrowing.

Deputy Governor Karolina Ekholm and Deputy Governor Lars E.O. Svensson entered a reservation against the decision to raise the repo rate by 0.25 of a percentage point to 1.75 per cent and against the repo rate path in the Monetary Policy Update. They preferred a repo rate equal to 1.5 per cent and a repo-rate path that would first rise slower and then faster than that of the Update, to about 3.9 per cent at the end of the forecast period. Such a repo-rate path would imply CPIF inflation closer to 2 per cent and a faster reduction of unemployment towards a longer-run sustainable rate.

The repo rate was raised by 0.25 percentage points in July

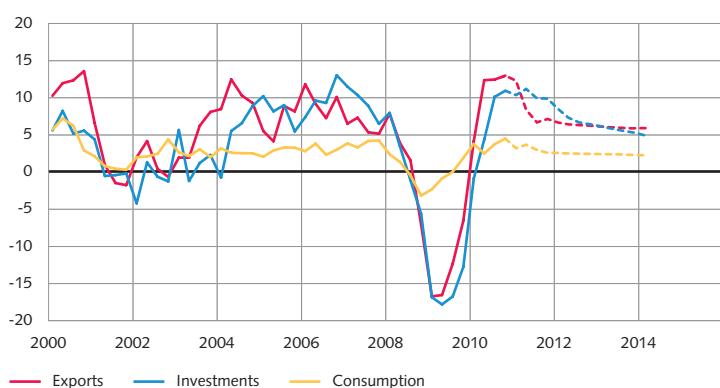
The recovery in the world economy continued during the spring, but the outlook was fragmented and marked by uncertainty. In Sweden, economic developments remained strong, but later in the year growth was expected to return to more normal levels.

The economic situation in Europe was divided. The prospects in some northern European countries, such as Germany, improved partly because of the increase in exports, while developments in several countries in southern Europe were held back by the need for fiscal policy tightening. Since the monetary policy meeting in April, concern had grown over the long-term ability of countries with weak public finances to service their debts. At the same time, the recovery in the US economy was still slow.

The Swedish economy continued to perform strongly, but was expected to enter a calmer phase with more normal growth rates. Monthly indicators such as the Economic Tendency Indicator and the Purchasing Managers' Index implied continued good growth, however. One reason for conditions being so favourable was that Sweden, thanks to its strong public finances, was not expected to need any fiscal policy tightening. Moreover, Sweden, unlike many other countries, had not suffered negative effects from a declining housing

Chart 2

Exports, investments and consumption, annual percentage change, seasonally-adjusted data



Note: The broken lines represent the Riksbank's forecast from the MPU of April 2011.

Sources: Statistics Sweden and the Riksbank.

Chart 3

TCW-weighted exchange rate, index, 18.11.1992 = 100



Source: The Riksbank.

market. All in all, the Swedish economy was expected to perform more strongly than many of the economies in the euro area (see Chart 4). The overall assessment was that resource utilisation was still slightly lower than normal, but that it would rise and within a few years be normal or slightly higher than normal.

With regard to inflation, the difference between the various measures was still substantial. CPI inflation was high, and was expected to be significantly above the target of 2 per cent throughout the forecast period, primarily as a result of mortgage rates being expected to rise with the repo rate. Moreover, the difference between the interest rates paid by households and the repo rate had increased, which also contributed to a rapid increase in households' interest expenditure. CPIF inflation excluding energy prices was low, on the other hand. When measured as an annual percentage change, the CPIF was below 2 per cent in May, and when rising energy prices are excluded it was close to 1 per cent. The fact that the krona had strengthened the year before (see Chart 3), at the same time as the rate of increase in unit labour costs was low, contributed to holding back inflation. The inflationary pressures in the economy were expected to increase as resource utilisation rose and as wages increased at a faster rate.

Given this, the Executive Board of the Riksbank considered that the repo rate needed to be raised gradually to stabilise inflation around the target of 2 per cent and to stabilise resource utilisation around a normal level. Accordingly, the Board decided to raise the repo rate by 0.25 percentage points to 2.0 per cent, and at the same time hold the repo-rate path unchanged, compared with the assessment in April.

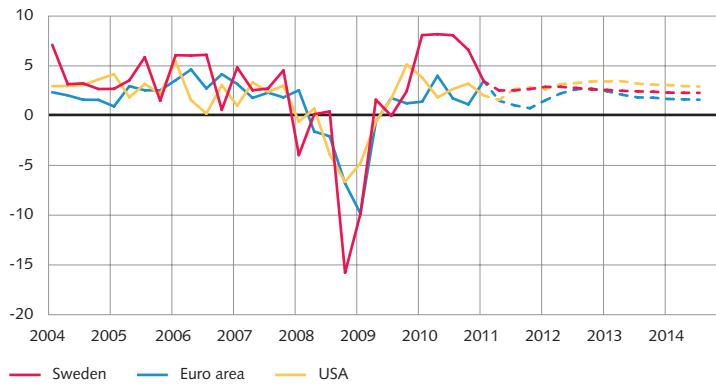
Deputy Governor Karolina Ekholm and Deputy Governor Lars E.O. Svensson entered a reservation against the decision to raise the repo rate by 0.25 percentage points to 2.0 per cent and against the repo-rate path in the Monetary Policy Report. They preferred an unchanged repo rate equal to 1.75 per cent and a repo rate path that would first rise slowly to 2 per cent in the third quarter of 2012 and then rise faster to about 3.8 per cent by the end of the forecast period. This was motivated by their assessment that the Report's forecasts of foreign policy rates and Swedish resource utilisation were both too high. Their repo rate path would imply CPIF inflation closer to 2 per cent and a faster reduction of unemployment towards a longer-run sustainable rate.

The repo rate was held unchanged in September, at 2.0 per cent

During the summer the financial markets were characterised by concerns based on the sovereign debt problems in the euro area and in the United States. There was reason to believe that fiscal policy in both regions would need to be tightened more than had previously been assumed. The large-scale tightening was expected to hamper growth in the following years, but was considered necessary to

Chart 4

GDP in different regions and countries, quarterly change in per cent, annual rate, seasonally-adjusted data

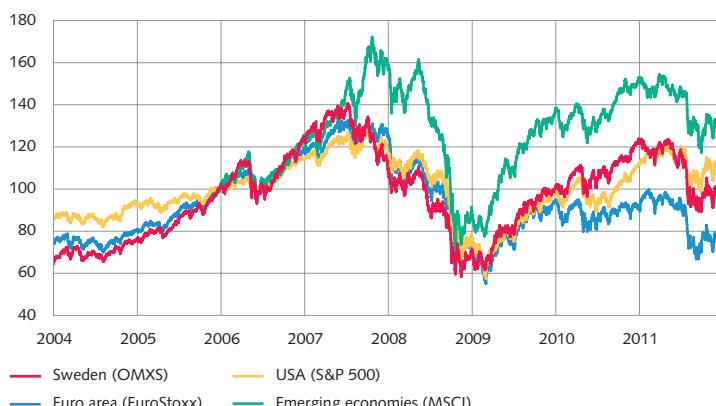


Note: The broken lines represent the Riksbank's forecast from the MPR of July 2011.

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

Chart 5

Stock market movements, index, 03.01.2006 = 100



Source: Reuters EcoWin.

Chart 6

Lending to households and companies, annual percentage change, seasonally-adjusted data



Source: Statistics Sweden.



The wellbeing of employees is important for their job performance. The Riksbank's own dining-hall offers employees the opportunity to meet informally colleagues from other departments over a hearty breakfast, tasty lunch or coffee break.

dampen unease and increase confidence on the financial markets. The unease was amplified by the poorer outcomes in macro statistics. Accordingly, stock markets in many countries fell substantially (see Chart 5).

New data for the United States also showed that GDP growth had been weaker than expected during the first half of 2011. The growth in corporate investment and increase in employment were low. Household consumption had been weak, which was partly because households had tried to reduce their debts and restore their net wealth after the financial crisis. The housing market also continued to be weak. Likewise, the outlook for the euro area was poorer. The Riksbank had assessed as early as July that the recovery would be slow, but it was now expected to take even longer. Moreover, the rate of growth in several countries in Asia had slowed down and the prospects for their continued growth had deteriorated somewhat.

The poorer growth prospects abroad and the unease on the financial markets had a negative effect on the Swedish economy. According to the Riksbank's assessment in July, growth would gradually slow down, but in September the slowdown was expected to become more pronounced. At that time, the Riksbank was expecting both households and companies to act with greater caution and for unemployment to decline at a slower rate than was previously estimated. Both housing prices and lending to households had been increasing at a slower rate for some time, which together with the increased uncertainty was also expected to entail that households would take on debt to a lesser extent than before (see Chart 6).

The improvement on the Swedish labour market was expected to proceed slowly for the next year. The Riksbank therefore assessed that resource utilisation would increase more slowly than had been expected in July. Inflationary pressures were also low. The annual rate of increase in the CPIF was 1.6 per cent in July and was expected to rise towards 2 per cent within a couple of years. However, CPI inflation was high and reached 3.3 per cent in July. It was expected to fall to a lowest point of 1.7 per cent in 2012, and then gradually to rise to just over 2.5 per cent in 2014.

Since the slowdown in the Swedish economy was expected to be more pronounced, the Executive Board of the Riksbank assessed that it was appropriate to hold the repo rate unchanged at 2 per cent and to postpone continued increases somewhat (see Chart 1). The Executive Board considered that a lower repo-rate path would gradually stabilise inflation around the target of 2 per cent and resource utilisation around a normal level.

The Executive Board of the Riksbank decided unanimously to leave the repo rate unchanged at 2 per cent. However, Deputy Governor Karolina Ekholm and Deputy Governor Lars E.O. Svensson entered a reservation against the repo-rate path in the Monetary Policy Update. They preferred a repo-rate path that would stay at 2 per cent until mid-2013 and then rise to 3 per cent by the end of the forecast period. This was justified by their assessment that the Update's forecasts of foreign policy rates and Swedish resource utilisation were both too high. This repo-rate path would then imply CPIF inflation closer to 2 per cent and a faster reduction of unemployment towards a longer-run sustainable rate.

The repo rate was held unchanged at 2.0 per cent in October, as well

The difficulties in creating a long-term solution to the public finance problems in the euro area and in the United States continued during the autumn. This led to stock markets remaining weak and to an increase in pessimism among households and companies. The Riksbank assumed in its forecast that the most acute public finance problems in the euro area would be resolved in an orderly manner. However, this would require severe fiscal policy tightening, which was expected to hamper growth in the euro area over a long period of time. Compared with the assessment in September, the forecast for growth in the euro area was revised down for the entire period. Growth in 2012 in particular was expected to be very low. GDP growth in the United States was also revised down somewhat. The emerging economies were expected to continue to grow at a relatively good pace, although their growth was expected to slow down slightly further ahead. The world as a whole was therefore expected to show somewhat slower growth than had been forecast in September, albeit at a historically-normal rate.

The risk of weaker global growth caused commodity prices to fall during the autumn. Inflation abroad remained high, but was expected to fall at roughly the same pace as forecast in the September Monetary Policy Update. The Riksbank assessed that the effects of the rising energy prices earlier in the year would wane and that there would still be relatively plentiful spare capacity in the euro area and in the United States in the coming period. At the end of the forecast period, inflation abroad was expected to be somewhat lower than had been forecast in September.

During the autumn, the Swedish economy was mainly affected by developments abroad, which caused a decline in households' and companies' confidence in the Swedish economy and also led to a weak and volatile stock market in Sweden. Compared to the forecast in September, household consumption and corporate investment were expected to grow more slowly during the second half of 2011 and parts of 2012. Exports were at the same time expected to be weaker than the Riksbank had forecast in September, because of the slowdown in world trade. GDP growth was therefore expected to decline faster and unemployment to be higher than was previously forecast. Resource utilisation was still assessed to be somewhat lower than normal, and was expected to rise slightly slower than had been forecast in September, becoming normal towards the end of 2014.

In September CPI inflation was 3.2 per cent and CPIF inflation was 1.5 per cent. However, when the effects of energy prices are excluded, CPIF inflation was only 1.1 per cent. Compared with the assessment in September, the Riksbank adjusted its forecast for inflation downwards in the longer run, given the poorer world outlook and the lower international inflation. CPI inflation was expected to be higher than CPIF inflation throughout the forecast period, primarily because mortgage rates were expected to increase as the repo rate was raised. Moreover, mortgage rates had increased more than was justified by the changes in the repo rate. This was partly because the banks' funding costs had increased, and partly because the banks had increased their margins on mortgages to households.

The Executive Board of the Riksbank assessed that the weaker economic developments and lower inflationary pressures justified holding the repo rate unchanged at 2 per cent. Moreover, the Executive Board considered that an unchanged repo rate some way into 2012, which was then raised gradually to around 3.5 per cent towards the end of 2014, would lead to CPIF inflation stabilising around 2 per cent and resource utilisation stabilising around a normal level towards the end of the forecast period.

Deputy Governor Karolina Ekholm and Deputy Governor Lars E.O. Svensson entered a reservation against the decision to hold the repo rate unchanged



and against the repo-rate path in the Monetary Policy Report. They preferred to lower the repo rate to 1.75 per cent. They also preferred a lower repo-rate path that would stay at 1.5 per cent from the first quarter of 2012 through the first quarter of 2013, and then rise to just above 3 per cent by the end of the forecast period. This was justified by their assessment that the Report's forecasts of foreign policy rates and Swedish resource utilisation were both too high. This repo-rate path would then imply CPIF inflation closer to 2 per cent and a faster reduction of unemployment towards a longer-run sustainable rate.

The repo rate was cut to 1.75 per cent in December

There was still substantial concern over sovereign debt in the euro area during the late autumn and the prospects for global growth had deteriorated further. It was primarily the economic prospects for the euro area that had deteriorated in relation to the forecast in the October Monetary Policy Report. The situation in the United States, on the other hand, now looked somewhat brighter in the short term, but US growth in the longer run was expected to be negatively affected by the poorer growth prospects in Europe. At the same time, the emerging economies were expected to continue growing at a relatively good pace. Growth in the world as a whole was expected to be slightly lower in 2012 and 2013 than was forecast in October.

Many of the Riksbank's employees contribute expert assistance to more than 100 international committees and working groups. During certain periods this can mean many business trips, both for a couple of days or longer.



The poorer growth prospects contributed to the financial markets beginning to question to even larger extent the debt-servicing ability of other countries with weak public finances in the euro area, and not just those which were hit worst. The yields on Italian and Spanish government bonds rose periodically to all-time highs, despite continued purchases by the European Central Bank (ECB). The uncertainty also led to volatile stock market prices and increased pessimism among households and companies in Europe. Moreover, the banks in several European countries had problems with capital adequacy and funding, which risked leading to poorer access to credit for households and companies in these countries. In December, the EU presented a new plan to tighten economic policy control in the union. At the same time, the European Council decided on an initiative to supply further funds to the International Monetary Fund (IMF) to improve the Fund's capacity to provide short-term support to the euro countries in crisis (this initiative is described in greater detail in the box "International work" in the section "A safe and efficient payment mechanism"). However, at the time of the monetary policy meeting in December, it was still unclear what form the announced measures would take and what effects they would have. The Riksbank's forecasts assumed that the most acute problems in the euro area would be resolved in an orderly manner and that the problems in the larger euro countries would not escalate. The Riksbank also assessed that fiscal policy in several

countries would become tighter than the Riksbank had previously assumed. For instance, France, Italy and Ireland had announced new savings programmes that would be implemented from 2012 and onwards.

Inflation in the euro area was still high, and remained at 3 per cent in November. It was expected to decline during 2012–2014 as the effects of the higher energy prices earlier in 2011 waned and as a result of resource utilisation being lower.

The National Accounts showed an unexpectedly strong growth in Sweden for the third quarter of 2011. Compared with the corresponding quarter in 2010, GDP increased by 4.6 per cent. Contributing to the strong GDP growth were robust growth in exports and weak imports. Although the GDP outcome was stronger than the Riksbank had expected, there were clear signs that growth had slowed down substantially during the fourth quarter. Falling orders for the Swedish export industry pointed to exports being negatively affected by the lower demand from abroad. Households had already cut back on their consumption significantly during the third quarter. Their confidence in economic developments was low, and they were expected to continue to consume moderately and to keep their savings at a high level. Growth in corporate investment was also more subdued during the third quarter than the Riksbank had anticipated. As export activity weakened and investments were postponed, the Riksbank assessed that

The Riksbank's research in 2011

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

The Riksbank's research is mainly focused on areas of direct significance to the Bank's activities, such as monetary policy, the banking system and financial markets. The activities also include developing methods of analysis.

The results of the Riksbank's research are published in international scientific journals. This guarantees that the quality of the research is evaluated objectively in accordance with international standards. The research results are communicated through presentations at other central banks and universities, as well as at international conferences. The insights from the research are also summarised in

articles in the Riksbank's journal, *Sveriges Riksbank Economic Review*.

During 2011, around ten articles based on the Riksbank's research work were accepted for publication in leading journals. For example, the central monetary policy analysis model at the Riksbank was documented in the *Journal of Economic Dynamics and Control*, in an article showing that financial driving forces have been significant for the variations in the Swedish business cycle. Another article published in the *Journal of Monetary Economics* helps explain the large variation in earnings on equities. An article that will be published in the *American Economic Review* illustrates on the basis of Swedish conditions how expectations of a company's future marginal costs affect the pricing decision now, which is directly significant for the work on inflation forecasting. Finally, an article to be published in the *Journal of Financial Economics* shows that Swedish households reduce their holdings of equity and equity funds when the variation in their employment income increases from

one period to another, which is in line with the predictions made by theoretical models.

During the year, the Riksbank arranged a conference on information management and the significance of expectations for the functioning of the economy. At the conference, leading researchers discussed how economic models can take these factors into account and what consequences this has for the central banks' analysis of the economy. One of the participants was Professor Christopher A. Sims, one of this year's recipients of the Riksbank's prize in economic sciences in memory of Alfred Nobel (see the section "Sveriges Riksbank's prize in Economic Sciences in memory of Alfred Nobel 2011"). He presented an essay describing how self-fulfilling expectations can lead to unsustainable sequences of events with rising asset prices if economic agents have different expectations of economic policy, and how a central bank can act to reduce the probability of such problems arising.

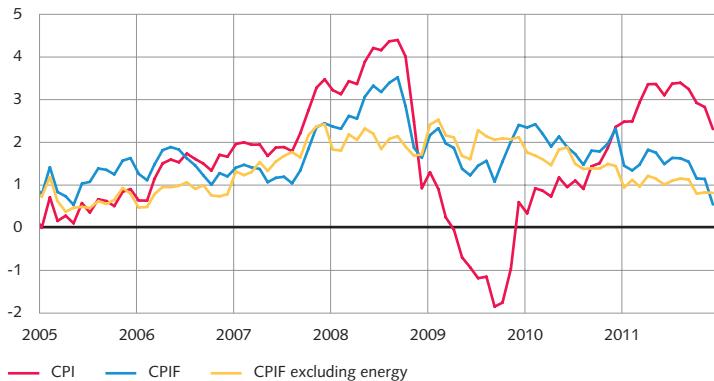
the rate of investment in 2012–2013 would be lower than had been forecast in October. The poorer economic developments also affected the labour market in Sweden. It became increasingly clear that the improvement in the labour market situation during 2010 and 2011 had come to a halt. Unemployment was therefore expected to rise somewhat in 2012. The Riksbank thus assessed that resource utilisation would normalise at a slower rate than had been assumed in October.

Inflation in October and November was lower than expected. The annual rate of increase in the CPIF was only 1.1 per cent in November, and adjusted for energy prices the rate of increase in the CPIF was 0.8 per cent. CPI inflation had also fallen more rapidly than the Riksbank assessed in October. In November, it amounted to 2.8 per cent. The fall in inflation was broad and not concentrated to any particular group of products or services. Moreover, weaker domestic demand and low international inflation contributed to the Riksbank revising down its assessment of inflation even further for 2012 and 2013.

Given the lower inflationary pressures, poorer developments abroad and weaker domestic activity, the Executive Board of the Riksbank decided to cut the repo rate by 0.25 percentage points to 1.75 per cent. The forecast for the repo rate was adjusted downwards at the same time. According to the Riksbank's forecast, concern over public finances in several countries would subside and Swedish households' and companies' confidence would gradually return, which, together with the expansive monetary policy, would contribute to a gradual rise in resource utilisation and inflationary pressures. The Executive Board assessed therefore that gradual increases in the repo rate from the end of 2012 up to just over 3 per cent at the end of 2014 would stabilise inflation around the target of 2 per cent and resource utilisation around a normal level at the end of the forecast period.

Chart 7

CPI, CPIF and CPIF excluding energy, annual percentage change



Source: Statistics Sweden.

Deputy Governor Karolina Ekholm and Deputy Governor Lars E.O. Svensson entered a reservation against the decision to cut the repo rate to 1.75 and against the repo-rate path in the Monetary Policy Update. They instead preferred cutting the repo rate to 1.5 per cent and a lower repo-rate path that stays at 1.25 per cent from the second quarter of 2012 through the third quarter of 2013, and then rises to just below 3 per cent at the end of the forecast period. This was justified by their assessment that the Update's forecasts of foreign policy rates and Swedish resource utilisation were both too high. Their repo-rate path would then imply CPIF inflation closer to 2 per cent and a faster reduction of unemployment towards a longer-run sustainable rate.



In February 2011 the Swedish National Audit Office published the results of an audit of the Riksbank's and Finansinspektionen's work with financial stability during 2005–2007 in the light of risks arising in the financial system as a result of the banks' expansion in the Baltic countries.

According to the Swedish National Audit Office, the two authorities underestimated these risks. The Swedish National Audit Office also considered that the authorities' mandate regarding the responsibility for financial stability should be clarified.

Table 1

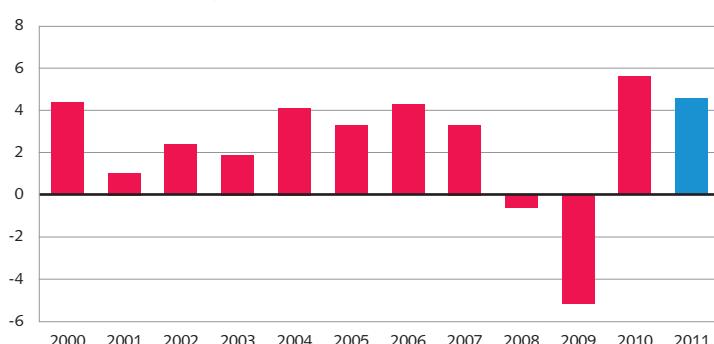
Comparison of different measures of inflation, annual percentage change

	Annual average		
	2009	2010	2011
CPI	-0.5	1.2	3.0
CPIF	1.7	2.0	1.4
CPIF excluding energy	2.1	1.5	1.0

Source: Statistics Sweden.

Chart 8

GDP in Sweden, annual percentage change

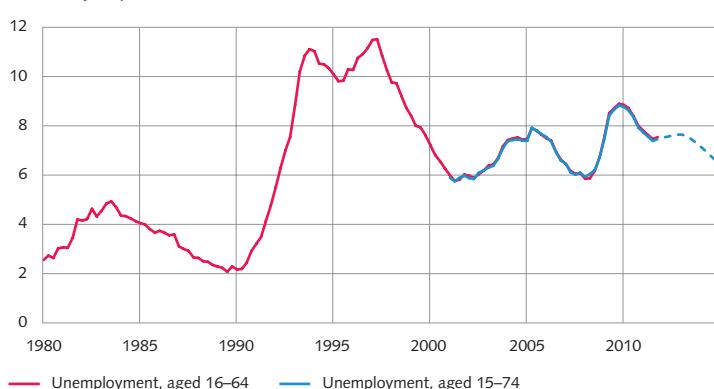


Note: The blue bar represents the Riksbank's forecast from the MPU of December 2011.

Sources: Statistics Sweden and the Riksbank.

Chart 9

Unemployment in Sweden, percentage of the labour force, seasonally-adjusted data



Note: The broken line represents the Riksbank's forecast from the MPU of December 2011.

Sources: Statistics Sweden and the Riksbank.

Follow-up

The Riksbank's monetary policy is evaluated by the Riksdag Committee on Finance. The Riksbank compiles a written report entitled "Material for Assessing Monetary Policy" for this evaluation, which is published after the first Monetary Policy Report of the year. The report for 2011 will be submitted to the Riksdag in April 2012.

Inflation 2011

During the second half of 2010 CPI inflation rose relatively rapidly as a result of both higher interest rates and higher energy prices. The CPI continued to rise during the first half of 2011 for these same reasons, but the upturn was counteracted by a stronger krona exchange rate. In August the CPI inflation rate peaked at 3.4 per cent (see Chart 7). During the autumn, however, prices of both goods and services increased at a much slower rate and CPI inflation fell again.

On average, CPI inflation amounted to 3.0 per cent in 2011, which can be compared with 1.2 per cent in 2010 (see Table 1). Measured in terms of the CPIF, which is the CPI with a fixed mortgage rate, inflation was 1.4 per cent in 2011. The CPIF excluding energy prices increased by 1.0 per cent in 2011.

The development of the real economy in 2011

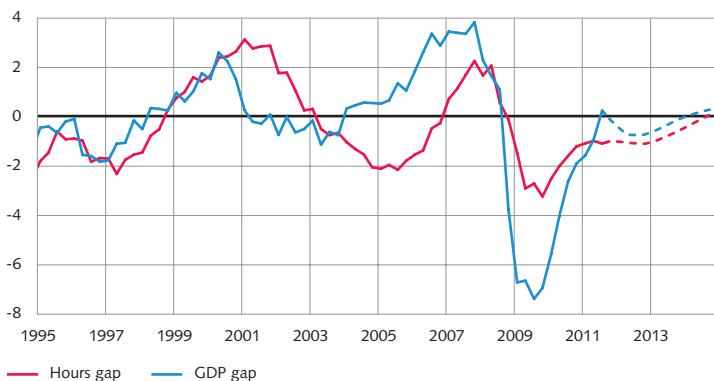
During 2011 GDP increased by 4.6 per cent according to the Riksbank's forecast in December. This increase was somewhat less than the year before, when GDP rose by 5.6 per cent (see Chart 8). The upturn was broad and partly due to an increase in exports and partly to strong domestic demand. Both consumption and investment rose. As in 2010, GDP growth was stronger in Sweden than in many other countries. One favourable factor here was that Sweden had relatively good public finances in 2011, which meant that there was no need for fiscal policy tightening. Moreover, the demand for Swedish export goods was considerable, at the same time as Sweden was not suffering any negative effects from a declining housing market, which had been the case in several other countries. At the end of the year, however, there were clear signs that growth had slowed down substantially, partly as a result of reduced demand for Swedish export goods.

The labour market continued to develop strongly in 2011. The number of jobs Sweden lost during the crisis had been more than recovered at the beginning of 2011. The demand for labour was good and both the number of persons employed and the number of persons in the labour force increased. Unemployment continued to decline (see Chart 9). The weaker economic performance at the end of the year meant, however, that the improvement in the labour market ground to a halt.

A measurement of resource utilisation is often used as an overall measurement of the development of the real economy. However, there is no clear-cut way to measure this, and the Riksbank uses a number of different indicators to assess resource utilisation.

Examples of such measurements are the GDP gap and the hours worked gap, which measure the percentage deviations of GDP and the number of hours worked from their respective potential levels (see Chart 10). If the respective measurement is positive, that is, if GDP and the hours worked are higher than their potential levels, it means that the activity level in the economy is high and that resources in the economy are being used to a greater extent than normal. The opposite applies when the measurements are negative. According to both of these measurements, resource utilisation was on average slightly lower than normal in 2011.

Chart 10
GDP gap and hours gap, per cent



Note: The GDP gap refers to the GDP deviation from trend, calculated using a production function approach. The hours gap refers to the difference between the actual number of hours worked and the Riksbank's assessment of the trend for hours worked. The broken lines represent the Riksbank's forecast from the MPU of December 2011.

Sources: Statistics Sweden and the Riksbank.

Statistics

Under the provisions of the Sveriges Riksbank Act the Riksbank shall make public statistical data concerning foreign exchange and credit conditions on a continual basis. This means that the Riksbank is responsible for statistics concerning the balance of payments, the financial markets, turnover on the money and bond markets as well as interest rates and exchange rates.

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

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

During 2011, the Riksbank continued the work aimed at improving the statistics concerning securities, on the basis of the experiences from the financial crisis. In June, a legal amendment came into force that gives the Riksbank the right to collect data on securities from Swedish issuers. The amendment makes it possible for the Riksbank to better follow and analyse securities funding at both banks and non-financial firms and thus develop its analysis of stability in the financial system. The

Riksbank also reached an agreement with Statistics Sweden, which entails the latter building up a Swedish securities database on behalf of the Riksbank. The database will be used with effect from 2013 to produce statistics on the Swedish securities market. This will enable the Riksbank to remedy information deficiencies that came to light during the financial crisis and to gain access to important statistics for analysing developments in the financial markets. As a first step in creating the Swedish securities database, the Riksbank continued developing a system for receiving and storing data from Euroclear Sweden concerning Swedish securities issued in Sweden.

In the light of the conclusions presented in connection with the inquiry into risks in the Swedish housing market, the Riksbank assessed that the analysis in the fields of monetary policy and financial stability needs to be reinforced with the aid of better access to information on households' assets and liabilities. The Executive Board therefore decided in September to appoint an inquiry regarding building up a financial micro database to collect such detailed information on households and companies. The inquiry, which will be conducted in cooperation with other authorities, is to present its proposal in June 2012.

In September 2011, the Executive Board also decided that the Riksbank will take part in a project conducted jointly with

Finansinspektionen and Statistics Sweden to safeguard data collection and the production of financial statistics. This decision follows the proposal by an external inquiry on behalf of the Riksbank and Finansinspektionen, which presented the report "Coordinated data collection for the surveillance, supervision and statistics" in June. The inquiry presents in its report proposals as to how to meet the growing requirements for financial data among the two authorities and how the collection of such data should be organised efficiently in relation to the rules regarding secrecy, and so on.

During 2011 the work on adapting the statistics to the coming changes in the international standards for the balance of payments continued as well. The Riksbank is conducting this project in collaboration with Statistics Sweden. The work is also harmonised within the EU and its results will begin to apply in 2014.

The internal work on developing an integrated system of statistics and forecasts to support the Riksbank's policy work continued likewise according to plan. The purpose of this system is to increase both the safety and quality of the Riksbank's handling of statistics. The system is called Data Library in the Riksbank and will be brought into operation in the monetary policy work during 2012.

■ A safe and efficient payment mechanism

In 2011, the Riksbank's work on promoting a safe and efficient payment mechanism was still affected by the aftermath of the international financial crisis that affected Sweden in autumn 2008, and by the unease on the financial markets stemming from sovereign debt problems in several countries. The Riksbank also took part in the continuing reform work regarding future financial regulations. Moreover, the Riksbank investigated the principles for the rules regarding collateral for credit in the RIX system, with reference to the experiences from the financial crisis and the new international banking regulation. The work on developing a new series of banknotes and coins entered a new phase, in that the Riksbank took several decisions regarding the artistic and technical design of the new banknotes and coins.

The Riksbank has the Riksdag's mandate to promote a safe and efficient payment mechanism. As interpreted by the Riksbank, this mandate has broad implications and in practice includes responsibility for stability in the financial system. The Riksbank shares this responsibility with Finansinspektionen (the Swedish Financial Supervisory Authority), the Swedish National Debt Office and the Government, through the Ministry of Finance. These authorities have different roles in the sphere of financial stability. The allocation of their responsibilities and mandates was the subject of an official inquiry during 2011.

The financial system consists of agents (such as banks) and marketplaces where the agents operate, financial markets, infrastructure that enables payments and exchanges of securities and a regulatory code in the form of legislation, regulations and other standards. The basic functions of the system are to mediate payments, convert savings into funding (capital supply), and to manage risk.

The Riksbank's practical work in the context of its mandate includes several different tasks. One such task is to take preventive action to reduce the probability of a financial crisis arising. Another is to be prepared to manage a crisis if one should nevertheless arise. The Riksbank is also responsible for issuing banknotes and coins. Furthermore, the Riksbank provides a system for interbank payments in Swedish kronor, called the RIX system (see Figure 1).

■ Financial stability

The Riksbank has chosen to define financial stability as meaning that the financial system can maintain its basic functions and also has resilience to disruptions that threaten these functions. The Riksbank endeavours to prevent threats to financial stability by regularly monitoring developments in the financial system and in the economy in other respects, as well as informing of, and warning against, risks that are building up. The objective is to persuade banks and other agents in the financial markets to observe and mitigate the risks that are identified.

If a financial crisis nevertheless arises, the Riksbank has various ways to deal with it and can quickly supply money to the financial system if the need arises.

The Riksbank and financial stability under normal conditions

An important part of the Riksbank's preventive work with financial stability involves regularly following developments in the financial system and in the economy in other respects, as well as informing of, and warning against, risks that are building up. The main focus for monitoring is currently on the four major banking groups in Sweden, as they play a central part in payment mediation and credit supply. The Riksbank also monitors the Swedish and international financial markets, as the banks are dependent on these markets to fund their operations and manage their risks. Another important part of the Riksbank's

Figure 1

The Riksbank's activities to promote a safe and efficient payment mechanism

Preventive work

- Regularly analysing and monitoring developments in the financial system and the economy as a whole and spreading information and knowledge about the results of this work
- Preventing threats to financial stability by informing of, and warning against, risks that are building up
- Influencing the financial regulatory framework so that it contributes to stability and efficiency

Crisis management

- Managing a financial crisis if one should arise, for example by supplying liquidity to the financial system in various ways if necessary

Operational tasks

- Issuing banknotes and coins
- Providing a central payment system which banks and other agents can use to make large payments

regular analysis is to follow developments among the banks' borrowers, in Sweden and abroad, since loans can constitute a potential source of major losses. In addition, the Riksbank monitors the financial infrastructure, with a focus on the parts that are essential for the efficient functioning of the financial markets and payments by the public. In its preventive work, the exchange of information with actors in the financial system also plays an important role.

The Riksbank is in a position to influence and shape laws and regulations that relate to supervision and crisis management by responding to consultation documents and actively participating in the work of a number of international organisations. The international cooperation is important, not least for continuously adapting and strengthening the process for coordinating oversight and supervision between the national authorities.

The Sveriges Riksbank Act does not give the Riksbank any binding statutory tools to influence financial market participants. Instead, the Riksbank primarily acts (in public and in dialogue with financial system participants) by calling attention to and warning of risks and events that may threaten financial stability. The Riksbank recommends, for instance, that financial system participants should take measures to reduce the risks in the system. The Riksbank endeavours to be as open, clear and predictable as possible in its financial stability communication.

The Riksbank communicates its views on financial stability in several different ways. For example, twice a year the Riksbank publishes the Financial Stability Report, in which the Executive Board presents its assessment of the major banks' resilience to unexpected events and highlights potential risks to financial stability. In addition, the Riksbank regularly assesses the Swedish financial infrastructure and publishes the results of these assessments annually in separate publications. The Riksbank's assessments are also presented in speeches and in other publications. The Riksbank also describes the financial system, its structure and its participants, in the annual publication The Swedish Financial Market.

The Riksbank and financial stability in a crisis

The financial system participants are strongly inter-linked. This means that a problem arising in one bank can quickly spread through the system. This is because the banks often borrow from one another, often lend to the same groups, are dependent on the same financial markets and use the same infrastructure. They are also exposed to the same type of disruptions. Increased globalisation also means that confidence and liquidity crises affecting banks in other countries can quickly spread to the Swedish banks.

If a financial crisis occurs, the Riksbank, Finansinspektionen, the Ministry of Finance and the National Debt Office share the responsibility for dealing with the crisis so as to minimise the costs to the domestic economy. The Riksbank's crisis management can be divided into three main areas: supply of liquidity to the financial system, communication of the Riksbank's assessments and co-operation with authorities in Sweden and abroad.

The Riksbank maintains liquidity in the financial system by ensuring that its participants have access to short-term funding in Swedish kronor. Under certain circumstances, the Riksbank can also offer loans in other currencies.

The Riksbank can provide liquidity assistance to individual institutions on special terms and conditions. The aim of such assistance is to prevent a situation in which a bank is forced to suspend payments and to prevent the effects of such an event from spreading throughout the financial system. These special terms and conditions may, for example, include the Riksbank accepting forms of collateral other than those that normally apply to the Riksbank's lending. Banking institutions and Swedish companies that fall under the supervision of Finansinspektionen may receive such assistance under exceptional circumstances. One such exceptional circumstance is if the Riksbank believes that the institution concerned is systemically important in the situation prevalent at that time. The Riksbank has chosen to define an actor, a market or a part of the financial infrastructure as systemically-important if problems arising in one such agent, market or infrastructure could lead to disruptions in the financial system that would result in potentially large costs to society.



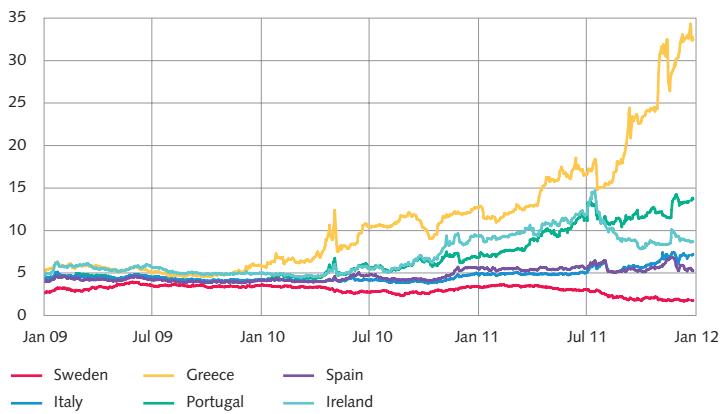
In August 2011 the Riksdag published an independent evaluation of the Riksbank's monetary policy and work with financial stability 2005–2010.

The evaluation was made on behalf of the Committee by Charles Goodhart, professor at London School of Economics, and Jean-Charles Rochet, professor at Toulouse School of Economics.

Among other things, they examined what lessons for monetary policy and the work with financial stability could be learned from the most recent financial crisis.

Chart 11

Interest rates on ten-year government bonds in Sweden and a sample of European countries, per cent



Source: Reuters EcoWin.

In order to manage a crisis effectively, the Riksbank must constantly keep its plans for a crisis organisation up to date. A necessary condition for this is that the Riksbank makes regular stability analyses that provide good knowledge of the financial system. Moreover, the Riksbank must maintain a practical crisis management capacity in normal conditions. The Riksbank therefore organises its own crisis exercises to evaluate and improve its crisis preparedness and also participates in exercises together with other Swedish and foreign authorities, primarily supervisory authorities and ministries of finance. As cross-border activities of banks have increased, it has become increasingly important to implement crisis exercises with the participation of authorities from different countries. Financial crisis management has also become a high-profile issue for the Riksbank's work in various international forums.

Activities in 2011

The Riksbank's financial stability work in 2011 was still characterised by the repercussions from the financial crisis that began with turbulence on the international markets in 2007 and hit Sweden in autumn 2008. For one thing, the Riksbank took part in the continuing reform work regarding future financial regulation. The Riksbank also worked on clarifying its communication by further defining the recommendations the Bank has been making to participants in the financial system since 2010.

During the year, the unease on the financial markets increased, which was mainly due to sovereign debt problems in the euro area. Investors' expectations of a renegotiation of the Greek sovereign debt increased, and during the autumn the euro area countries proposed a voluntary write-down of the value of the Greek government bonds. At the same time, investors began to question the sustainability of public finances in some of the larger countries within the euro area. As a result, yields on govern-

ment bonds in countries with weak public finances rose (see Chart 11). The Riksbank therefore increased its readiness to take action if the uncertainty in the financial markets were to affect the financial system in Sweden. For instance, the Riksbank intensified its contacts with market participants and banks, as well as with other central banks.

Despite the uncertainty, the Swedish banks were able to obtain funding in the financial markets. This was partly because they were better capitalised than many other internationally-active banks, and partly because they had only small direct exposures to the countries with weak public finances. The banks' situation was also made easier by the fact that they had extended the maturity of their market funding. It was therefore not necessary for the Riksbank to reintroduce any measures to safeguard the liquidity of the banking system. In this respect, the situation in Sweden differed from that in many other European countries, where the banks once again relied on loans from the European Central Bank (ECB). However, it became more expensive for the Swedish banks to obtain longer-term funding.

Development of international regulations and cooperation

During 2011, the Riksbank continued its work on studying and influencing future regulations and improving the supervision of the financial system. Swedish banks and financial institutions are regulated by the laws drafted at EU level, which in turn are often drafted in other international bodies. The Riksbank took an active part in this work, both at EU level and within the Bank for International Settlements (BIS).

These international discussions focussed to a great extent on the new global regulations for banks, known as the Basel III Accord, which was adopted by the Basel Committee at the end of 2010. The Basel III Accord requires, for instance, that the banks shall hold more capital, and better quality capital, than has previously been required. This means that the minimum requirement for the banks' capital is raised, which increases the banks' capacity to absorb losses. This in turn reduces the likelihood of a financial crisis. Moreover, the agreement also makes binding quantitative requirements regarding the banks' liquidity risks to reduce these risks in the financial system. The new regulations also aim to increase insight into the banks' balance sheets and the risks they take. The Basel III Accord will be introduced gradually between 2013 and 2019.

In July 2011, the European Commission presented a proposal on how the Basel III Accord should be implemented in the EU. The Riksbank took part in the discussions on this proposal by assisting the Ministry of Finance with expertise in the negotiations with the European Council and European Parliament on how the proposal should be formulated. As member of the Basel Committee, the Riksbank also took part in the work on further developing

the proposal for extra capital adequacy requirements for banks with international systemic importance, and studying what consequences the new regulations may have for the real economy.

During the year, the Riksbank continued its participation in the work within the BIS on developing new, revised principles for the systems in the financial infrastructure. Moreover, the Riksbank took part in the formulation of a proposal from the European Commission regarding new regulations to increase transparency and reduce risks in the trading of OTC derivatives (European Market Infrastructure Regulation) by assisting the Ministry of Finance with expertise in the negotiations.

As part of its work on safeguarding the functioning of the financial markets, the Riksbank provided its views on how the new regulation for the EU's market in financial instruments (MiFID or Market in Financial Instrument Directive) should be formulated. The review of this regulation aims to improve the functioning of the financial markets by providing uniform rules for investment firms and thereby increase insight into the market.

Moreover, the BIS presented the conclusions of a study of how central banks can be structured to work efficiently on financial stability issues. This study, which was chaired by Governor Stefan Ingves, showed that the central banks' responsibility and mandate regarding financial stability need to be clearly established. It is also necessary to clarify how responsibility should be allocated between the central banks and other authorities involved in the work of promoting financial stability to attain effective decision making and to enable accountability. Moreover, the central banks need to have suitable tools for promoting the stability of the financial system.

The importance of greater insight into the banking sector is a subject that was pursued on behalf of the Riksbank by First Deputy Governor Svante Öberg in 2011, in his role as member of the EU's Economic and Financial Committee (EFC). He worked for the inclusion of stress tests of the resilience of the banking system and an examination of the banks' liquidity situation to be included in the analysis in the International Monetary Fund's (IMF) Financial Sector Assessment Program (FSAP).

During the first half of 2011, Deputy Governor Lars Nyberg chaired a working group on behalf of the EFC, which had the task of surveying and analysing which crisis management mechanisms the member states had to meet the results of the European Banking Authority's (EBA) stress tests published in July.

The Riksbank participates in the work of the newly-formed European Systemic Risk Board (ESRB). During the year the Riksbank worked to ensure that the ESRB will take action with regard to potential measures to reduce the banks' vulnerability as a result of using market funding in US dollars. The Riksbank also contributed to the work of the ESRB by examining the EU legislation being developed for banks, the infrastructure and insurance companies. This examination focused on the legislation having to make it possible for the authorities to stipulate tougher requirements than those decided at EU level, for instance with regard to supervision instruments such as capital adequacy requirements for banks. The Riksbank also took part in the work on formulating the ESRB's first public recommendation on measures to reduce the risks in the banking system resulting from lending in foreign currencies (see also the box "International work").

The Riksbank continued developing the Nordic and Baltic cooperation in 2011. During the year, two meetings of the Nordic-Baltic Macroprudential Forum were held in Stockholm. This is an informal forum for cooperation between central banks and financial supervisory authorities in these countries, which focuses on financial stability risks and the cross-border banking operations in the region. Governor Stefan Ingves is chairman of the forum until 2013.

The Riksbank also continued its work within the Nordic-Baltic Financial Stability Group, which is a forum for ministries of finance, central banks and financial supervisory authorities in the Nordic and Baltic countries. This forum was established in 2010 following a Memorandum of Understanding on financial stability, crisis management and crisis resolution between the Nordic and Baltic countries to strengthen preparedness to deal with cross-border financial stability issues in the Nordic-Baltic region.

During 2011, the Riksbank worked on the Swedish section of a study on the cost of payments begun by the ECB in 2010, together with 19 national central banks within the European System of Central Banks (ESCB). It was planned that the results of the study would be presented during 2011, but the work had to be postponed as several countries experienced difficulties in obtaining access to relevant data.

International work

The Riksbank is active in a number of international organisations. In addition to the work on financial regulations conducted within the BIS, the ESCB and the EFC, the Riksbank has other international commitments, including work within the IMF. As of 2011, the Riksbank's international work has been extended in that Stefan Ingves has been given new commitments within the ESRB, the Basel Committee and the Financial Stability Board (FSB).

ESRB

The ESRB is a new, independent EU body responsible for the macroprudential supervision of the EU's financial system. Its main task is to contribute to preventing or mitigating systemic risks that threaten financial stability in the European Union. It can issue public or confidential warnings and recommendations on measures. These can be directed either at the EU as a whole or at one or more member states, European financial supervisory authorities or national financial supervisory authorities.

In January, the Governor of the Riksbank, Stefan Ingves, was appointed chairman of one of the two advisory bodies in the ESRB, the Advisory Technical Committee (ATC). In his capacity as chairman of the ATC, Stefan Ingves is a member of both the steering committee that prepares the meetings of the General Board and oversees the ESRB's day-to-day work and a member of the General Board of the ESRB. As a representative of the Riksbank, Deputy Governor Lars Nyberg took part in several meetings of the ESRB General Board and of the ATC during the year. In addition, the Riksbank actively participates in various working groups and expert groups preparing the work of the ATC.

The Basel Committee and the FSB

The Basel Committee has the task of developing international standards, guidelines and recommendations for the regulation of banks. The most recent example is the Basel III Accord. The Riksbank actively participates in several sub-groups to the Basel Committee. The chairman of the Basel Committee is also a member of the FSB, which is an international body established to highlight vulnerabilities in financial stability. The body has the task of developing, coordinating and introducing international regulation and supervision within the field of financial stability. The FSB has also initiated six regional consultative groups for various parts of the world to increase the exchange of information with countries that are not members of the organisation.

In June, Stefan Ingves was elected chairman of the Basel Committee. In this capacity he is a member of the FSB, where he represents the Committee at plenary meetings, which is the highest decision-making forum, and on the steering committee, which is the executive body of the FSB. Deputy Governor Karolina Ekholm represents the Riksbank in the FSB's regional consultative group for Europe.

Together with the secretariats of the ESRB and the Basel Committee, the Riksbank prepares Stefan Ingves for the meetings of these committees.

The IMF

During 2011 the Riksbank continued its IMF-related work. Sweden is part of the IMF Nordic-Baltic constituency, which means that the Riksbank, in consultation with the Ministry of Finance, decides on Sweden's position in policy issues prior to the discussions and decisions of the IMF's Executive Board. The Riksbank also contributes to the funding of the IMF through capital subscriptions and lending arrangements. Moreover, Governor Stefan Ingves is Sweden's governor in the IMF, while Deputy Governor Barbro Wickman-Parak represents the Riksbank on the Nordic-Baltic Monetary and Financial Committee (NBMFC), which is the constituency's highest policy-making body.

During the autumn, the Riksdag gave the Government the authority to increase Sweden's capital subscription to the IMF by 2 035 million Special Drawing Rights (SDR), implying a new maximum amount of 4 430 million SDR. The Riksdag also authorised the Riksbank to pay the required sum to the IMF. The capital subscriptions to the IMF are only implemented when a sufficient number of member states (70 per cent) have ratified the increase.

An important policy issue discussed during the year was the IMF's surveillance role. Sweden welcomed the enhancement of IMF surveillance to include more in-depth analysis of the cross-border effects of individual countries' economic policy as well as the link between the financial sector and the real economy. Further, Sweden actively promoted including an analysis of countries' financial account policies and the development of IMF guidelines on how to manage volatile capital flows. During the spring the Riksbank organised a joint conference with the IMF, in which several central banks participated, to discuss methods for implementing stress tests of the banks' resilience. In addition, the Riksbank and the IMF organised a seminar in June on

how to strengthen the international financial system and the role of the IMF.

The Riksbank also takes part in the IMF's New Arrangement to Borrow (NAB), which can be activated when the demand for loans from the IMF becomes so great that the capital subscriptions are not considered sufficient. During the spring, the Riksbank and the other members of the NAB decided to increase the size of the arrangement and to improve its functioning. (The Riksbank's transactions in connection with the NAB are described in the section "Asset management".)

Given the uncertain situation in the euro area, the Riksbank made a decision in December to promote a Riksdag decision that will give the Riksbank the right to sign a bilateral agreement to lend up to SEK 100 billion to the IMF. This decision was taken in connection with an EU initiative on a time-limited European contribution to the IMF's resources in order to dampen the effects of the ongoing sovereign debt crisis. According to this decision, the Riksbank shall actively work for its share of the European contribution to be used to provide loans under IMF programmes bound by surveillance and strict terms and conditions with a requirement for reforms in the borrower countries, and which are based on a reasonable allocation of the contributions from the individual EU countries.

Technical assistance

The Riksbank also provides expert assistance to central banks in developing countries, what is known as technical assistance. In 2011 this included cooperation with the central banks of Kenya, Uganda, Vietnam and Albania. The activities were financed by funds from the Swedish International Development Cooperation Agency, Sida.

Review of the Swedish framework for supervision and surveillance of the financial sector

In the light of the lessons learned from the financial crisis and the widespread work on regulations taking place internationally, the work on reviewing the Swedish framework for the supervision and surveillance of the financial system has also continued. Several surveys during the year also pointed to the importance of adjusting the Swedish framework so it becomes more expedient. This includes, for instance, reviewing and clarifying the Riksbank's mandate for financial stability, clarifying the allocation of responsibilities between the Riksbank and Finansinspektionen and examining whether the Riksbank needs special tools to safeguard financial stability.

Evaluations of the Riksbank's monetary policy and work with financial stability 2005–2010

In its consultation response to the Riksdag Committee on Finance's report "Evaluation of the Riksbank's monetary policy and work with financial stability 2005–2010", the Executive Board also presented its standpoints on the part of the evaluators' assessments and recommendations that concern the Riksbank's work with financial stability. The Executive Board agreed with the evaluators' impression that there are inadequacies in the institutional framework and legislation. However, the Executive Board noted that most of these shortcomings are currently the subject of an inquiry by the Financial Crisis Committee, and that the Committee on Finance intends to review the Sveriges Riksbank Act after the Financial Crisis Committee has presented its proposals.

The General Council of the Riksbank was also positive to the evaluators' recommendations being in line with the proposals submitted by the Riksbank to the Riksdag in 2010. However, the General Council considered in its consultation response that there was at present no reason to make any changes in the division of responsibilities among the members of the Executive Board or to reintroduce specific areas of responsibility for each individual Board member.

The Riksbank's work with financial stability was also examined at the request of the Centre for Business and Policy Studies (SNS) in the research report "Maintaining Financial Stability in an Open Economy: Sweden in the Global Crisis and Beyond". The report analyses the Riksbank's management of the financial crisis and also highlights among other things the need to review the allocation of roles between the Riksbank and other authorities, primarily Finansinspektionen. The authors also point out that new regulation is needed in the financial sector, and that the relationship between monetary policy and financial stability is stronger than was previously assumed.

In the light of the conclusions drawn from these evaluations, the Riksbank signed in January 2012 a Memorandum of Understanding with Finansinspektionen on setting up a temporary and informal council for cooperation on macroprudential policy, to establish an efficient structure for consultation on financial stability issues while awaiting the Financial Crisis Committee's proposals and amendments in the legislation. The purpose of the council is to establish a forum where the Riksbank and Finansinspektionen can discuss assessments of systemic risks, financial stability and macroprudential policy. The cooperation council will also offer a forum for discussing and coordinating any policy messages and measures within the authorities' joint spheres of interest. This applies, for instance, to the form and application of macroprudential policies.

The reports' conclusions regarding the Riksbank's monetary policy are presented in the section "Maintaining the value of money – price stability". That section also contains an account of the Riksbank's consultation responses and other measures in the field of monetary policy with regard to the recent evaluations.



Professors Goodhart and Rochet assessed that the effects of the most recent financial crisis were relatively mild in Sweden, thanks to the measures the Riksbank took in collaboration with the Swedish National Debt Office and the Ministry of Finance.

They also considered that the Swedish legislation should be amended to clarify the powers and responsibilities of the Riksbank, Finansinspektionen, the Swedish National Debt Office and the Ministry of Finance with regard to managing and preventing crises.

The authorities' measures for financial stability

The Riksbank's work with financial stability during the period 2005–2007 was also examined by the Swedish National Audit Office in 2011. The purpose of this examination, which also covered Finansinspektionen's work within this field, was to learn lessons for the public sector's work on maintaining the stability of the financial system on the basis of the risk to Sweden arising from the Swedish banks' exposures in the Baltic countries. The Riksbank stated in its consultation response to this examination that it welcomed that the Swedish National Audit Office examines of the authorities' work with financial stability. Moreover, the Riksbank agreed to a great extent with the Swedish National Audit Office's conclusions. These included pointing out that there are deficiencies in the institutional framework and legislation on financial stability and that the communication regarding the build-up of risk prior to the crisis was insufficiently clear.

In December 2011 the inquiry into a higher level of crisis preparedness in the central payment system (SOU 2011:78) proposed that with effect from 2013 the Riksbank should be given a clearer role in the work with the financial sector's crisis preparedness and should be responsible for national coordination in this field. The idea is that this responsibility would be part of the work the Riksbank has been conducting for some time to reinforce the sector's resilience to operational crises and to further develop its crisis management capacity. This would involve the authorities and companies concerned being able to, individually and collectively, counteract and manage crises resulting from, for instance, widespread systemic breakdowns, personnel losses or physical accidents and natural disasters. An efficiently-functioning crisis management can be significant for the financial sector being able to maintain services important to the civil society if an operational crisis occurs.

Evaluation of the Swedish financial system

During the spring the IMF evaluated the financial sector in Sweden. The evaluation was in the form of an FSAP, the purpose of which is to identify vulnerabilities in the financial system that could lead to a financial crisis. For instance, the Fund carried out stress tests of the banking system's resilience to a poorer development of the economy, evaluated the financial regulatory framework and analysed to what extent international standards and regulations are observed.

The Riksbank assisted the IMF in this work by planning, coordinating and arranging meetings between the IMF and other authorities and actors in the Swedish financial system. The Riksbank also gathered data for the IMF and helped to produce new models for the stress tests.

The result of the evaluations showed that the IMF essentially shares the Riksbank's view that the greatest risks to the Swedish financial system in 2011 stemmed from the sovereign debt crisis in the euro area, but that these risks were indirect. The IMF's evaluation also showed that some of the Riksbank's areas of activity need to be reinforced. This includes the development of models and the oversight of the financial infrastructure. The Riksbank has initiated a project aimed to strengthen both of these areas. The IMF also emphasised the importance of taking a collective approach to the financial framework in Sweden, for instance by establishing a new forum for Swedish authorities with a responsibility to safeguard financial stability.

Analysis of an appropriate capital ratio in the Swedish major banks

In 2011 the Riksbank made a study of the appropriate capital ratio for the major Swedish banks. The study focused on the economic benefits and disadvantages of the banks having different capital ratios given the specific circumstances prevailing in the Swedish banking system. The results of the study, which were presented in December in the expert report "Appropriate capital ratios in major Swedish banks – an economic analysis", became a contribution to the debate on how much capital banks need to hold as a buffer to better withstand financial crises. The debate focused on the new Basel III Accord, which states the lowest level for a bank's capital (Core Tier 1 Equity capital) in relation to its risk-weighted assets, that each country should impose on its banks. The Basel III Accord sets the basic capital adequacy requirement, somewhat simplified, at 7 per cent. However, the Riksbank's study indicates that, from an economic perspective, the Swedish banks should attain capital ratios in the region of 10 to 17 per cent. Thus, the capital adequacy requirements in the Basel III Accord do not appear sufficient to ensure that the Swedish banks attain capital ratios that are within the most socially-appropriate interval.

Inquiry into risks in the Swedish housing market

The Riksbank's inquiry into risks in the Swedish housing market, the results of which were presented in April 2011, examined several questions from a financial stability perspective (the results that are significant for monetary policy analysis are described in the section "Maintaining the value of money – price stability"). This included, for instance, the question of how financial stability would be affected if housing prices began to fall, and whether such a price fall would lead to large loan losses on the banks' lending to households. The inquiry concluded that the loan losses the Swedish banks would suffer on mortgages to households due to a fall in housing prices would not constitute any direct threat to financial stability. However, the banks' costs for, and access to, market funding through covered bonds could be affected by a fall in housing prices, despite the credit risk on the underlying asset – the mortgage – being assessed as minor.

Another important conclusion from this inquiry is that the access to detailed information on households' assets and liabilities is a necessary condition for a good analysis of the housing market. By using such information it is possible to obtain at an early stage an idea of which part of the banks' lending is sensitive to changes in households' finances and what this might mean for the stability of the financial system in Sweden. In the light of these conclusions, the Riksbank started a project aimed at examining how to build up a database to gather detailed information on households' assets and liabilities (see the box "Statistics" at the end of the section "Maintaining the value of money – price stability"). Parallel to this project, the Riksbank began to examine, together with Finansinspektionen, credit granting in the Swedish mortgage market on the basis of the information households give to the banks when applying for loans.

The inquiry also indicated that it is important to examine what tools are needed to prevent systemic risks, and how responsibilities should be allocated between the authorities with regard to using these tools. Analysis of these questions is included in the Financial Crisis Committee's work within the scope of a review of the regulations for managing financial crises.

Assessments of financial stability

The Riksbank assessed in 2011 that the Swedish banks were financially strong, as their earnings had improved, while loan losses were low, and expected to remain low. At the same time, the Swedish banks had strengthened their capital and were well-capitalised compared with many banks in other countries. This contributed to the Swedish banks having good access to market funding, despite the unease on the financial markets increasing over the course of the year. Their costs for longer-term funding increased during the second half of the year, however. The largest risks that were assessed as possibly affecting the Swedish banks were that the financial markets

would function less smoothly and that global growth would decrease as a result of the sovereign debt crisis in the euro area.

The Swedish banks coped well during the spring, despite the unease on the financial markets increasing once again

The uncertainty on the financial markets increased once again during the spring as a result of the sovereign debt problems in the euro area. Portugal became the third euro area country, after Greece and Ireland, to apply for financial support from the EU and the IMF. Financial market participants mainly focused on Greece, however, where weak growth prospects and large budget deficits had increased the probability of a renegotiation of the country's sovereign debt. As a result of the unease caused by the sovereign debt problems, many European banks faced higher costs of market funding and several banks were still dependent on the central banks' liquidity assistance measures for their funding. However, the Swedish banks had good access to market funding both in Swedish kronor and foreign currency. The Riksbank was therefore able to settle its final extraordinary loan in January 2011.

The Riksbank assessed that the economies of the Nordic countries would continue to develop well and that the recovery in the Baltic countries would continue. This meant that loan losses in these countries were expected to be low. During spring 2011 the Riksbank therefore revised down its forecast for the banks' loan losses compared with the forecast published in the Financial Stability Report in December 2010 (see Chart 12). Loan losses during 2011–2013 were calculated to be SEK 18 billion, which was SEK 8 billion less than the assessment for the same period in the previous Financial Stability Report. At the same time, the banks' earnings were expected to increase, primarily because lending to companies in the Nordic countries was expected to increase.

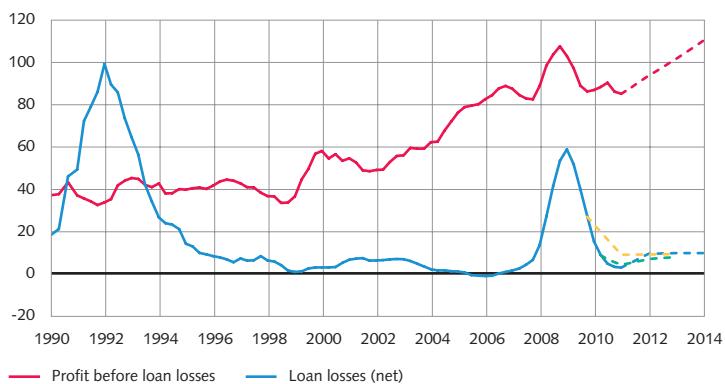


The Riksbank's handling of the most recent financial crisis was analysed by Ralph Bryant, senior fellow at Brookings Institution, Dale Henderson, professor at Georgetown University, and Torbjörn Becker, researcher at the Stockholm School of Economics.

The results of their analysis were published by SNS (the Swedish Centre for Business and Policy Studies) in November 2011. The researchers highlighted the need to introduce new regulation into the financial sector, to better integrate the financial system into monetary policy analyses and to clarify the allocation of roles between the Riksbank and Finansinspektionen.

Chart 12

Earnings before loan losses and loan losses (net) in the major banks, cumulative over four quarters, SEK billion, 2011 prices



Note: The broken lines represent forecasts in the Riksbank's main scenario according to the Financial Stability Reports 2011:2 (blue and red lines), 2011:1 (green line) and 2010:2 (yellow line). Loan losses (net) are the sum of four accounting items: realised loan losses, provisions for feared loan losses, reversals of previous provisions, and recoveries of previously realised loan losses.

Sources: Bank reports, SME Direkt and the Riksbank.

The sovereign debt crisis in Europe continued to pose a risk to financial stability, however, although Sweden and the Swedish banks were considered to have good scope to withstand it. Despite the Swedish banks having extended the maturity of their funding, they were still using a large share of short-term market funding in foreign currencies, mainly US dollars. If the unease on the financial markets were to increase, there was a risk that it might become both more difficult and more expensive for the banks to obtain funding on the international capital markets. Moreover, there was a risk of declining economic activity in Sweden and abroad as a result of the increased concerns over sovereign debt. This could cause the banks' loan losses to increase again.

However, the Riksbank's stress test of the Swedish banks' resilience to higher loan losses showed that the banks' Core Tier 1 Equity capital ratio, that is the banks' capital in relation to their risk-weighted assets, would remain high, even in the event of much higher loan losses.

The Riksbank also tested the banks' liquidity situation. The results indicated that the Swedish banks were taking slightly higher liquidity risks than an average of a sample of European banks. Among other reasons, this is because the Swedish banks hold a greater proportion of less liquid asset, such as mortgages, at the same time as their securities funding is to some extent short-term.

The Riksbank's recommendations

Given the prevailing risk outlook and the results of the stress tests, the Riksbank directed three recommendations at the Swedish banks in May 2011.

As with the corresponding recommendation in the Financial Stability Report published in December 2010, the Riksbank assessed that the Swedish major banks should retain or increase their capital ratios as a result of the uncertainty regarding the international economic climate and the disruptions on the financial markets. In addition, there was uncertainty over the design of the new capital adequacy requirements in the Basel III Accord. The Riksbank also considered that there were factors in the Swedish banking system that justified imposing in the long run higher capital adequacy requirements on the major Swedish banks than those prescribed in the Basel III Accord. These factors include the size and concentration of the Swedish banking sector, its extensive international operations and large dependence on market funding in foreign currency, as well as the implied state guarantees. If a problem were to arise in the banking sector, these factors could lead to substantial costs for society.

The Riksbank also assessed that the major Swedish banks should reduce their funding and liquidity risks, as they still had considerable exposure to these risks, which was shown in the Riksbank's stress tests. The fact that the major banks used short-term market funding in foreign currency to a large extent meant that the disruptions on the financial markets could have substantial effects on their access to funding.

Moreover, the Riksbank repeated its recommendation from December 2010 that there was a need for the major banks to improve the clarity of their public liquidity reporting, as it was still inadequate and rarely comparable. The major banks should therefore make their liquidity risks public once a year by providing part of the information they are obliged to report to Finansinspektionen in accordance with the directions for reporting liquidity risks that came into force in July 2011.

The situation on the financial markets worsened during the second half of the year, but the Swedish banks' resilience was good

During the second half of the year the situation abroad worsened. The sovereign debt problems in the euro area and in the United States weakened the prospects for global growth. At the same time, it appeared difficult from a political point of view to attain sustainable solutions to the debt problems, which caused the unease on the financial markets to increase. Yields on government bonds issued by countries with weak public finances therefore rose substantially. Moreover, financial market participants became increasingly cautious with regard to lending to one another, as they assessed that the counterparty risk had increased in line with the risk of a country being forced to renegotiate its sovereign debt, with ensuring major losses in the banking system. Although the Swedish banks had good access to market funding, their costs for funding their activities via covered bonds at longer maturities increased.

The Riksbank assessed in the second Financial Stability Report of the year that the Swedish banks were nevertheless well-equipped to face a weaker economic development and greater unease on the financial markets. Their earnings were expected to increase in the coming period and loan losses were expected to remain low, although they were expected to increase slightly as a result of growth in Sweden and abroad being expected to slow down (see Chart 12). All in all, the Riksbank considered that the Swedish banks were financially strong and that this would contribute to upholding confidence in the Swedish financial system, even if there was increased unease on the financial markets. The largest risk that could affect the Swedish banks was that the unease on the financial markets resulting from the sovereign debt situation in the euro area would develop into a crisis of confidence, in which the markets' ability to function would be severely impaired. The Swedish banks would be particularly vulnerable in such a situation, as they use market funding in foreign currencies to a large extent. The Riksbank also assessed that there was a risk that the euro area could suffer a recession, which could affect growth in Sweden and thereby also the Swedish banks' loan losses and lending.

The results of the Riksbank's stress tests showed that the Swedish banks were still well-capitalised and could manage higher losses than those described in the main scenario of the Financial Stability Report. This would also apply if an important counterparty were to suspend payments. The Riksbank also assessed that the Swedish banks still took greater liquidity risks than many European banks, although over the year they had improved their liquidity situation.

The Riksbank's recommendations

Given the weaker developments abroad, the Riksbank also recommended in the autumn that the major Swedish banks should continue to retain or increase their capital ratios. The Riksbank also considered, together with Finansinspektionen and the Ministry of Finance, that the major Swedish

banks should have imposed on them a binding Core Tier 1 Equity capital requirement that would amount, in relation to their risk-weighted assets, to at least 10 per cent on 1 January 2013 and at least 12 per cent on 1 January 2015. This recommendation was based on the assessment that it was necessary to make more far-reaching demands on the major Swedish banking groups with regard to both capital ratios and the time for their introduction than specified in the Basel III Accord. This is because there are factors in the Swedish banking system that can lead to disproportionately large costs to society in the event of a crisis. For instance, the Swedish banking system is very concentrated and large in relation to the Swedish economy. At the same time, the major Swedish banks have a large share of market funding in foreign currencies. Moreover, the market actors assume that the Swedish state implicitly guarantees that none of the major banks can go bankrupt.

With regard to the major banks' liquidity situation, the Riksbank recommended that the Swedish banks should meet the Basel Committee's short-term Liquidity Coverage Ratio (LCR) as early as 2011. Moreover, the major banks should meet this requirement both aggregated for all currencies and individually for the euro and the US dollar. The Riksbank also considered that Finansinspektionen should introduce binding requirements for the major banks to meet the LCR in foreign currencies with effect from January 2013, which is two years earlier than the Basel Committee has proposed. According to the Riksbank's assessment the major banks also needed to continue to reduce the difference in maturities between their assets and liabilities to meet the Basel Committee's Net Stable Funding Ratio (NSFR).

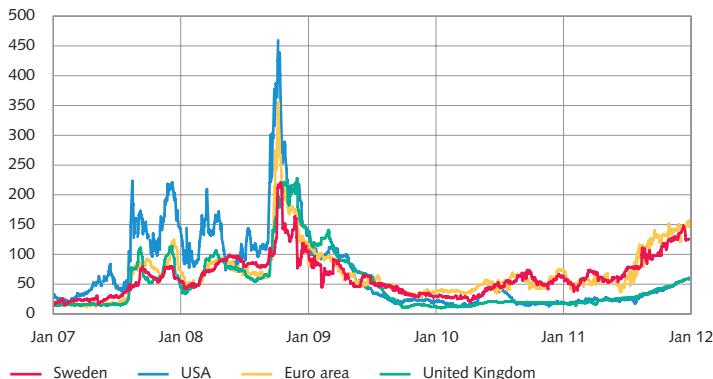
In addition, the Riksbank considered that the major banks' public liquidity reporting was still inadequate and needed to be improved. The Riksbank therefore recommended that after 1 July 2012 the major Swedish banks should regularly provide more detailed information on the size of their liquidity reserves and maturities and report their LCRs. Moreover, the major banks should agree, through the Swedish Bankers' Association,



The handling of the most recent global financial crisis has been the subject of an inquiry by the Financial Crisis Committee since March 2011. The Committee was appointed at the initiative of the Riksbank to review the regulatory framework in Sweden for dealing with financial crises. Its mandate includes analysing the allocation of responsibility and the interplay between the Riksbank, the Swedish National Debt Office, Finansinspektionen and the Swedish Ministry of Finance. The Committee is also to propose improvements in the regulations regarding the Riksbank's work with financial stability issues.

Chart 13

The risk premium on the interbank market, basis points



Note: The risk premium is specified using the so-called TED spread and is calculated as the difference between the three-month interbank rate and the three-month treasury bill rate.

Sources: Reuters EcoWin and Bloomberg.

on further relevant and comparable key figures and measures of liquidity risks for public reporting.

Follow-up

The financial system in Sweden was able to uphold its functions in 2011, despite the increase in the unease on the financial markets as the sovereign debt crisis in the euro area deepened and spread to more, and larger, countries.

The sovereign debt crisis in the euro area affected the European banking system to an increasing extent over the course of the year. On the whole, market funding became both more expensive and more difficult to access. Above all, the banks' cost of obtaining funding in US dollars increased. The ECB began to supply liquidity in the form of loans with a maturity of six months, to support the European banking system. During the autumn the ECB also began to offer funding in US dollars and bought large amounts of government bonds and covered bonds.

The Swedish banks did not suffer from the increased unease to the same extent, thanks to the fact that they had very small exposures to the countries in the euro area with sovereign debt problems and that they were also well-capitalised from a European perspective. Moreover, Sweden's public finances were relatively strong over the year. But there were signs that investors had become more cautious. This was evident when it became more expensive for the Swedish banks to obtain funds at longer maturities. The risk premium on the Swedish interbank market continued to rise during the year, in line with developments in Europe (see Chart 13). However, the Riksbank did not need to take any measures to add liquidity to the Swedish financial system. The Swedish banks' access to US dollars was also good.

The work on increasing clarity in the communication of the financial stability issues continued. For instance, the Riksbank specified in more detail the recommendations the Bank has been directing at participants in the Swedish financial system since autumn 2010.

The major Swedish banks also continued to adapt to the recommendations the Riksbank made in the Financial Stability Report published in December 2010. However, according to the Riksbank's assessment there was still a significant difference in maturities between the assets and liabilities in the Swedish banking system. Nor had the major banks' public reporting improved to the extent the Riksbank considered desirable. The Riksbank therefore considered that the recommendations still applied (see the section "Assessments of financial stability").

The Swedish financial infrastructure also functioned efficiently. The annual assessments of the clearing and settlement systems for payments and financial instruments showed that all parts of the Swedish infrastructure largely lived up to international standards.

The RIX payment system

The RIX payment system is the Riksbank's system for funds transfers. It forms the hub of the Swedish financial system, as it enables its participants – banks, clearing houses and many other market agents – to make transfers in a way that does not entail credit or liquidity risks. This in turn reduces the risks to the financial system. A RIX participant can make transfers from its own account with the Riksbank to another participant's account with the Riksbank. These transfers may concern the participants' own financial transactions or transactions made on behalf of their customers.

Almost all of the payments in Swedish kronor that are not made internally within an individual bank are handled in the RIX system in some form. The turnover in the system over six days is equivalent to Sweden's GDP.

To reduce the risk that transfers in the RIX-system will not be executed because participants lack liquidity, the Riksbank supplies liquidity during the day by granting credit to the participants against collateral. This means that transfers can be made more quickly and it increases the efficiency of the payment system. The collateral mainly consists of Swedish and foreign securities but may also be foreign currency.

As RIX is of decisive importance to the efficient functioning of the financial system, the Riksbank has set a high target for its availability. The system must be available for at least 99.85 per cent of the time it is open. RIX must also meet customer requirements. Consequently, the Riksbank's aim is that 80 per cent of the participants, corresponding to at least 70 per cent of the transaction volume in the system, are satisfied with RIX.

All costs relating to the provision of services in RIX are to be covered by fees paid by the participants. This also means that the Riksbank itself pays fees to the system in accordance with the same principles as the other participants and, in addition to that, pays for the functions used to implement monetary policy.

In conjunction with RIX, the Riksbank also provides special accounts and intraday credits to facilitate securities settlements. Euroclear Sweden, the Swedish central securities depository, manages these accounts and credits on behalf of the Riksbank.

Activities in 2011

One new participant has joined RIX since the beginning of the year. At the close of 2011 there were a total of 24 participants in the system.

RIX handled on average 13 657 transactions per day in 2011. This is an increase of 16 per cent compared with 2010. The average transaction amounted to around SEK 33 million.

The average daily turnover was around SEK 448 billion. This is an increase of 4 per cent on the previous year, if one adjusts the turnover in 2010 for transactions related to the Riksbank's special loan programme to the banks in connection with the financial crisis.

On average the RIX participants had a credit facility of around SEK 142 billion during the year, which is a decrease of around SEK 9 billion compared with the previous year. This credit facility is equivalent to the value of collateral which is pledged by the participants to the Riksbank and which is not used as security for other credit granted by the Riksbank. The sum of the maximum credit that each participant utilised per day was equivalent on average to 62 per cent of this credit facility.

As RIX is of great importance to the financial system, the Riksbank needs to have efficient contingency procedures if the technical system should fail. During the year the Riksbank therefore carried out several exercises of contingency procedures, both independently and with the participants. The Riksbank also began an inquiry into the need to introduce a solution that will offer the participants access to a functioning payment system even if operation at the Riksbank's normal sites were to cease. This inquiry is expected to be completed during 2012.

In January 2011, the Riksbank made a decision in principle to hire an external operator to take over the technical operation of the system, on condition that such an operator would be able to meet the Riksbank's requirements regarding functionality, security and cost-efficiency. This question is part of a bank-wide project to outsource parts of the Riksbank's IT operations (see the section "Organisation and management").

The Riksbank also examined the question of what principles should apply to the Riksbank's rules regarding collateral. This inquiry took into account the measures taken by the Riksbank in connection with

the most recent financial crisis, as well as the international bank regulations decided in the aftermath of the crisis. A proposal for new principles has been sent for consultation to the Riksbank's counterparties and other stakeholders. This question will continue to be discussed during 2012.

The Riksbank also continued negotiations with the Eurosystem on possible participation in TARGET2-Securities (T2S), the platform for securities settlement currently being developed by the Eurosystem. In December 2011, the Swedish Bankers' Association announced that the Swedish banks are positive to Swedish participation in T2S in the long run. However, the Swedish Bankers' Association considers that in the short term the costs and risks involved are too high for the Swedish krona to join T2S. Moreover, there are still a number of questions outstanding with regard to the platform. The Swedish Bankers' Association considers that the question of joining T2S should be reviewed again in a few years' time. The Riksbank is expected to receive an invitation to sign an agreement with the Eurosystem during the first quarter of 2012. After that, during the spring, the Riksbank will decide whether the Swedish krona should participate in T2S.

Follow-up

The Riksbank's targets for the RIX payment system were met in 2011. The system's overall function was good. There were no disruptions affecting the formal availability of the system during the year. The system was thus available for 100 per cent of the time when payments were being handled, which means that the availability target was met. However, the handling of payments was delayed on eight occasions in connection with the opening of the system in the morning. During the year there were also two minor incidents in RIX that had limited consequences for the participants.

The cost of the operations was SEK 66 million, 105 per cent of which were covered by fees. This means that full cost coverage was achieved in 2011. Regarded over the three year-period 2009–2011, however, cost coverage was 98 per cent, which means that the requirement for full cost coverage over the entire period was not met.

During 2011 the Riksbank carried out a survey of the participants in the RIX system. The questions in the survey concerned their views of RIX and the Riksbank's actions, for instance, with regard to the system's expediency and usefulness, availability of the Riksbank staff and confidence in them. The responses generally indicated that both the system and the support provided by the Riksbank to RIX participants to a large degree corresponded to the participants' requirements. 97 per cent of the respondents stated that they were satisfied or very satisfied, which is higher than the target figure of 80 per cent.

Table 2

Average value of banknotes and coins in circulation, SEK billion

	2007	2008	2009	2010	2011
Total value on 31 December	114	112	111	105	100
Banknotes	109	106	105	100	95
Coins	6	6	6	5	5
Total value on average during the year	109	108	107	104	99
Banknotes	104	102	100	98	94
Coins	6	6	6	6	5

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

Cash provision

The Riksbank has the exclusive right to issue Swedish banknotes and coins and is responsible for the provision of cash in Sweden. This means that the Riksbank supplies banknotes and coins, destroys banknotes and coins that can no longer be used and redeems banknotes that are no longer legal tender. The Riksbank also follows developments on the payment markets and analyses the use of cash and alternative means of payment in the economy.

The target of this activity is to ensure that banknotes and coins are of high quality and that the Riksbank's provision of cash is secure and efficient. The general public and companies that handle cash must have great confidence in both banknotes and coins and cash handling.

The Riksbank supplies cash to the banks via its two branches for cash handling in Tumba and Mölndal. The banks then distribute the cash to the retail sector and the public via their twelve cash depots around the country. The practical handling of these cash depots is conducted by cash-in-transit companies. These companies are also responsible for the distribution of banknotes and coins.

Activities in 2011

During the year the Riksbank continued its work on safeguarding the handling of cash and following the development of the value of cash in circulation. At the same time, the Riksbank continued its work on developing a new series of banknotes and coins.

Development in value of cash in circulation

The total value of the cash in circulation amounted to SEK 100 billion at the end of 2011, which is shown in the item Banknotes and coins in circulation on the liabilities side of the balance sheet. This is SEK 5 billion less than at the end of 2010 (see Table 2).

The value of the cash in circulation is governed by the demand for banknotes and coins, which varies over the course of a year. Demand increases in connection with Christmas shopping towards the end of the year, and then declines after the turn of the year. It is therefore possible to describe with greater precision how much cash is in circulation throughout the year by stating an average of the value of the cash on the final day of the month during the twelve months of the year. This average value was around SEK 99 billion in 2011, which is SEK 5 billion lower than the average for 2010 (see Table 2).

The value of the total amount of cash in circulation has been declining for four years in a row now, both at the end of the year and on average. This tendency is probably due to a change in payment behaviour. The Riksbank's analysis shows that the use of cards has increased rapidly in Sweden in recent years, which is one of the most important reasons why cash payments have declined. According to the most recent data from 2010, the average Swede made 196 card payments that year, but only 24 cash withdrawals. This means that the number of payments by card has increased almost sixfold since 2000. In the same period, the value of card payments has almost quadrupled.

There are no corresponding statistics for cash payments, but the Riksbank estimates that only 30–40 per cent of payments in the retail sector are made with cash. Measured in terms of GDP, the share of cash in circulation has fallen from 3.8 per cent to 2.9 per cent between 2001 and 2010 (see Chart 14). This should mainly be a direct consequence of the increase in the use of cards. The development of new payment services that replace cash in various areas, such as payments via mobile phone on public transport, may have led to a decline in the use of cash.

It is primarily the demand for banknotes that is declining in society as a whole. This applies to all denominations of banknotes, but the trend is clearest with regard to the 1 000-krona notes. This denomination accounted for almost 70 per cent of the decline in the value of banknotes in circulation during 2011. The demand for the 500-krona banknotes also declined substantially, which explains just over one quarter of the decline in value. This also entails a break in the trend, as the use of the 500-krona banknote had earlier shown an increase over many years.

However, the 500-krona note still remains the most common banknote denomination. It comprised 32 per cent of the total number of banknotes and accounted for 59 per cent of the average value of the banknotes in circulation, which amounted to SEK 94 billion in 2011. At the end of the year, the value of banknotes in circulation was SEK 95 billion (see Table 2 and Chart 15).

Moreover, the average value of cash in circulation became lower in 2011 as the value of coins in circulation declined on 31 December 2010. On that date the Riksbank wrote off liabilities for commemorative coins to the value of SEK 536 million in accordance with a change in accounting principles that entails writing off an issue of commemorative coins when it has been in circulation for more than ten years. The value of the coins in circulation has also declined as the Riksbank wrote off the 50-öre coin in 2011, which is no longer redeemed by the Riksbank. The average value of the coins in circulation during the year thus amounted to SEK 5.4 billion. At the end of the year, the value of coins was SEK 5.4 billion (see Table 2 and Chart 16).

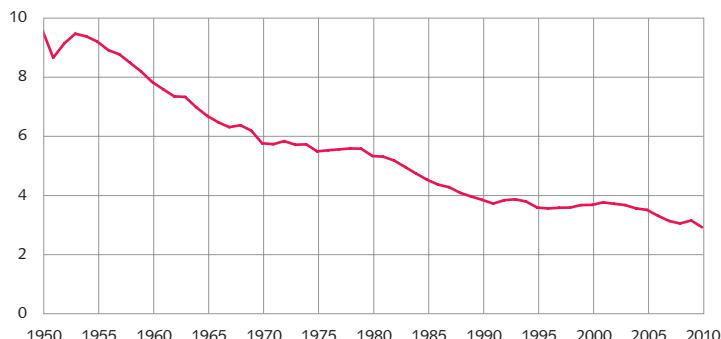
The most common denomination of coin was the 1-krona coin. This coin accounted for 67 per cent of the total number of coins in circulation and for 25 per cent of the average value of coins in circulation during the year.

The work on new banknotes and coins

During 2011 the Riksbank continued to work on designing a new series of banknotes and coins in accordance with the decision of the Executive Board in March 2010. The objective is to modernise banknotes and coins so that they continue to have effective protection against counterfeiting. The coins will become lighter and smaller to reduce handling costs and environmental impact. The new series of banknotes and coins will also contain two new denominations – a 200-krona banknote and a 2-krona coin – in accordance with the decision by the Riksdag (the Swedish parliament). The work on designing the new banknote and coin series is carried out in cooperation with banks, cash-in-transit companies, retail industry organisations, suppliers of equipment for automatic cash-handling and the National Federation of the Blind.

Chart 14

Value of banknotes and coins in circulation in relation to GDP, per cent

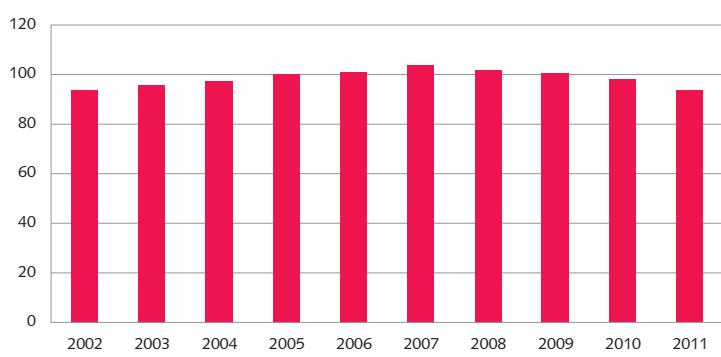


Note: The value of banknotes and coins in circulation is equivalent to public holdings of banknotes and coins issued by the Riksbank, excluding those banknotes and coins included in financial institutions' holdings.

Source: Statistics Sweden.

Chart 15

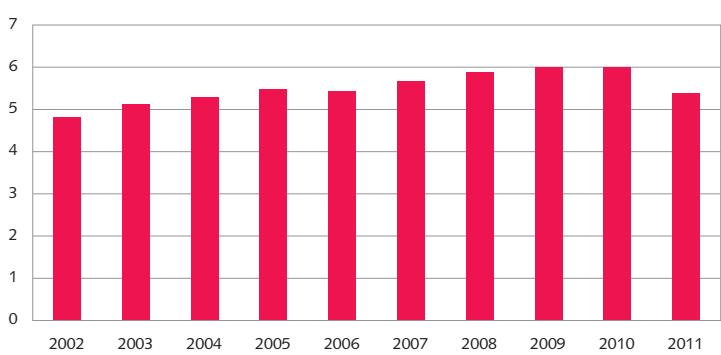
Average value of banknotes in circulation, SEK billion



Source: The Riksbank.

Chart 16

Average value of coins in circulation, SEK billion



Source: The Riksbank.

Table 3

Motifs for the banknotes in the Riksbank's new series

Denomination	Portrait	Nature or environment motif
20 krona	Astrid Lindgren	Småland
50 krona	Evert Taube	Bohuslän
100 krona	Greta Garbo	Stockholm
200 krona	Ingmar Bergman	Gotland
500 krona	Birgit Nilsson	Skåne
1 000 krona	Dag Hammarskjöld	Lappland

In April 2011 the General Council of the Riksbank decided on the themes, motifs, size, materials and colours for the new series of banknotes and coins. In accordance with this decision, the new banknotes will have personal portraits and Swedish nature and environment as their themes. The nature and environment motifs are to have connection with the persons on the banknotes, so that each note consists of a portrait of a person and a nature or environment motif that can be connected with the person concerned (see Table 3).

The General Council also decided that the new banknotes will be smaller than the current ones and that all of the banknotes will have the same height. However, the lengths of the different denominations will vary, so that the lowest denomination will be the shortest and the highest denomination will be the longest. The banknotes will be made of cotton paper that is stronger than the cotton paper used in the manufacture of the current banknotes. The colours of the banknotes will remain the same as today, that is, the 1 000-krona banknote will be grey-brown, the 500-krona note will be red, the 100-krona note will be blue, the 50-krona note will be yellow-orange and the 20-krona note will be purple. The new denomination, the 200-krona banknote, will be green. The new banknotes will be equipped with features in their printing that will make it easier for the visually-impaired to feel the difference between the denominations.

The Executive Board of the Riksbank decided that the new banknotes will have a new security feature in the form of a colour-shifting print, where the colour changes when the banknote is tilted. The four highest denominations, the 100-krona, 200-krona, 500-krona and 1 000-krona notes, will also be equipped with a further security feature in the form of a thread that gives an impression of motion when the note is tilted. This feature is already used on the most recent version of the 1 000-krona banknote.

In connection with these decisions, the Riksbank announced a competition to design the new banknotes, which was made open to artists, graphic artists, designers and architects. In the first stage of the

competition, eight applicants were selected to go on to stage 2, which will be concluded in early 2012. These eight are given the opportunity to present proposals for the design of the six new banknotes. The idea is that the winning proposal will form the artistic base for the design of the notes.

The new coins will be much smaller and lighter than the current ones, in accordance with the decision by the General Council. The 1-krona and 2-krona coins will be made of copper-plated steel, while the 5-krona will be made of Nordic Gold, which is the same material as used in the current 10-krona coins. There will be no change in the material used to make the 10-krona coin. Consequently, two of the coins in the new series will be copper-coloured and two will be gold-coloured. The new coins will have milled edges to make it easier for the visually impaired to feel the difference between the denominations.

The coins will continue to have Sweden's head of state as theme. A proposal for their design will be presented by a few selected designers without any special competition. The decision on the artistic design of the new banknotes and coins respectively will be made by the Riksbank in 2012.

During 2011, the Riksbank held discussions with the banks, the cash-in-transit companies, the retail trade and other stakeholders with regard to the strategy for the banknote and coin changeover. The discussions concerned, for instance, when the new banknotes and coins will be issued, in what order they will be issued and how long the present banknotes and coins will remain in circulation. The Riksbank will decide on these questions during 2012.

As part of the work on reviewing the banknote and coin series, the withdrawal of the 50-öre coin was completed. The coin ceased to be legal tender on 30 September 2010, but could be redeemed at the banks until 31 March 2011. The Riksbank received almost 111 million 50-öre coins to a value of just over SEK 55 million after the coin became invalid. This corresponds to 28 per cent of the total number of 50-öre coins that were in circulation on 30 September 2010. The 50-öre coins were sold to the Riksbank's coin supplier, the Mint of Finland, which will melt down the coins.

Development of new forms for cash handling

In January 2011 the building of a new office for cash handling began, in accordance with the Riksbank's decision of 2009. The office is being built in Sigtuna municipality and will replace the Riksbank's present two offices for cash handling. When the office comes into operation, which is planned for 2013, the majority of the banknote handling on the new premises will be automated. The Riksbank does not plan to store and handle coins there; these operations will take place outside of the Riksbank's premises. The Riksbank has therefore begun a project to procure services for storing and handling coins.

Table 4

Number of banknotes and coins

	2007	2008	2009	2010	2011
Number of banknotes in circulation (millions)	390	392	354	351	343
Number of coins in circulation (millions)	2 047	2 168	2 236	2 256	1 989
Number of counterfeited banknotes	1 248	1 512	1 064	1 503	562

Note: The information on the number of banknotes and coins in circulation refers to the average over the year and is rounded off.
The information on number of coins in circulation in 2010 and 2011 also includes commemorative coins.

Source: The Riksbank.

Follow-up

The lower value of the cash in circulation and the increasingly extensive use of cards for payments are considered to be in line with the Riksbank's responsibility for promoting a safe and efficient payment mechanism. As card use has increased, the average transaction value of a card payment has fallen over time. According to the most recent available statistics, the average transaction value was SEK 429 in 2010, which can be compared with SEK 648 in 2001. This indicates that cash is increasingly used mainly for lower-value payments. As cash payments are more cost-efficient than card payments for amounts below around SEK 70, this trend could be a sign that the Swedish payment mechanism is being used more efficiently.

There was little counterfeiting of Swedish banknotes in 2011 (see Table 4). The value of counterfeit notes removed from circulation during the year amounted to SEK 145 440, which is practically no change from 2010. However, the total number of counterfeit notes removed from circulation amounted to 562, which is much fewer than in 2010. It was mainly the 20-krona note and the older 50-krona note without a foil strip that were counterfeited. Moreover, there was some counterfeiting of the 1 000-krona note, primarily the older version without a foil strip, to a slightly greater extent than before. This increase

explains that the total value of counterfeit banknotes remained largely unchanged compared with 2010, while the number of counterfeit notes declined substantially. The Riksbank's assessment is that the security of cash handling in general is at a high level.

The Riksbank receives regular updates on how cash provision in society is functioning from the Cash Handling Advisory Board and the working groups linked to the Board. The Board consists of representatives of the banks, bank-owned companies, cash-in-transit companies, the retail trade, trade unions and the authorities concerned. The Cash Handling Advisory Board held one meeting in 2011. The questions taken up by the Board include the Riksbank's review of the Swedish banknote and coin series, the banks' company for cash machines, a cost study on cash payments and developments regarding robberies of banks, cash-in-transit vehicles and shops. In the light of the discussions within the Board and among its working groups, the Riksbank assesses that cash provision is functioning smoothly and that there is substantial confidence in banknotes and coins as a means of payment.



Since October 2011, a special inquiry has been reviewing how the experiences of the most recent financial crisis have affected the view of the Riksbank's financial independence and balance sheet.

The inquiry was appointed at the initiative of the Riksbank to analyse how large the Riksbank's foreign currency reserve should be, how it should be funded and how the Riksbank and the Swedish National Debt Office should cooperate if the foreign currency reserve needs to be strengthened. Its mandate also includes to inquire what constitutes an appropriate size for the Riksbank's equity capital.

■ Asset management

The market value of the Riksbank's financial assets was SEK 346.5 billion at year-end. The total return was SEK 17.6 billion, while the return excluding exchange rate effects was SEK 10.8 billion.

The Riksbank manages financial assets to ensure that it can fulfil its statutory objective and perform its tasks: to implement monetary policy, to be prepared to intervene in the foreign exchange market and to be able to provide temporary liquidity assistance to banks. Therefore, the composition of the assets must ensure the tasks can always be performed. Given this, the assets must then be managed to provide the highest possible long-term return in relation to the risk taken. A good long-term return on the assets also strengthens the Riksbank's financial independence.

The Riksbank's financial assets

The Riksbank's financial assets consist of the gold and foreign currency reserves, including receivables from the International Monetary Fund (IMF), assets relating to the Riksbank's monetary policy activities and derivative instruments.

Like many other central banks, the Riksbank has a gold reserve. This is in part a remnant of the days when the value of the banknotes and coins in circulation was linked to gold. The gold reserve contributes to counteracting fluctuations in the value of the foreign currency reserve, as the price of gold does not usually follow the same pattern as the value of the foreign currency reserve. The gold reserve is reported under a special heading on the Riksbank's balance sheet.

The foreign currency reserve consists of debt securities in foreign currencies with high liquidity and low risk, primarily government bonds. The Riksbank invests the reserve in several currencies, including currencies not normally used to intervene on the foreign exchange market or to provide liquidity assistance.

The Riksbank's assets also include receivables from the IMF, as the Riksbank is responsible for the obligations ensuing from Sweden's participation in the Fund. The Riksbank lends money to the IMF, which in turn lends money to countries with balance of payment problems, that is, countries that have difficulty in financing their foreign debt.

The foreign currency reserve and the receivables from the IMF are reported on the balance sheet under the heading Claims on residents outside Sweden denominated in foreign currency.

To implement its monetary policy, the Riksbank may also hold so-called monetary policy assets. Until 2008 these mainly consisted of the claims on Swedish banks resulting from repurchase transactions with the banks – the monetary policy repo. Nowadays, the banking system has a liquidity surplus that the Riksbank borrows either by issuing Riksbank Certificates or via overnight loans, what are known as fine-tuning transactions. Since 2008, the monetary policy transactions thus have resulted in the Riksbank having a debt to the banks. This debt is reported on the balance sheet under the heading Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor.

To facilitate the management of financial risk in its operations, the Riksbank can use derivative instruments. The derivative instruments with a positive value at the year-end are reported on the balance sheet under the heading Other assets, while the derivative instruments with a negative value are reported under the heading Other liabilities.

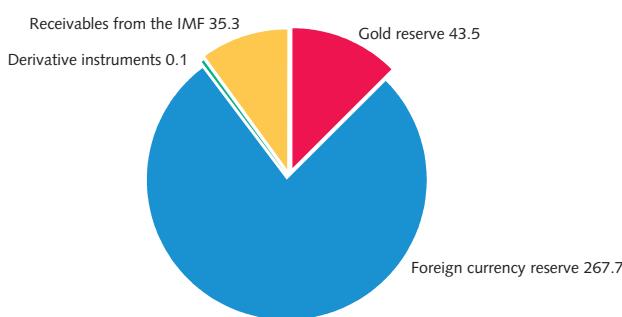
Chart 17 shows the composition of the Riksbank's financial assets at the end of 2011.

The Riksbank's financial regulatory structure and risk management

The financial risk policy of the Riksbank establishes the overall frameworks for the risk the Riksbank is prepared to accept in asset management. The Asset Management Department has a Middle Office that is responsible for day-to-day risk control and calculation of return on the Riksbank's assets. There is also a Risk Division in the Riksbank, which is part of the General Secretariat and responsible for overall risk control (see the section "Organisation and management").

Chart 17

The Riksbank's financial assets at the end of 2011, SEK billion



Source: The Riksbank.

The Riksbank's financial risks consist of liquidity risks, market risks and credit risks. Liquidity risk is defined as the risk that the Riksbank will be unable to perform its tasks and meet its commitments because the assets in the gold and foreign currency reserves cannot be sold in time or can only be sold at a significantly reduced price. Market risk, which can in its turn be divided into foreign exchange risk, interest rate risk and gold price risk, is the risk that the market value of the Riksbank's assets will fall. Credit risk is the risk of losses due to the Riksbank's counterparties or issuers of the securities in which the Riksbank has invested failing to meet their financial commitments.

The Riksbank follows up the risks in its asset management on a continuous basis using Value-at-Risk (VaR) as the main measurement of market risk. VaR measures the greatest loss that can occur as a result of price movements over a given period of time and with a given degree of probability. The return on the assets in the foreign currency reserve is also measured taking into account the risk the Riksbank takes when managing these assets. The risk-adjusted return is calculated with the aid of what is known as a Sharpe ratio, which is defined as return in excess of the risk-free interest in relation to the risk in the foreign currency reserve, measured as a standard deviation.

In addition to continuously following up the risks in the asset management, the Riksbank also regularly tests the sensitivity of the gold and foreign currency reserves to unexpected market events. The tests show how much the value might decline if a particular scenario, imagined or historical, were to occur.

In addition to financial risks, there are operational risks. These risks exist in all activities and can lead to losses if, for instance, someone makes a mistake or does something unlawful or if an error arises in the technical systems (see the box "Risks in the Riksbank's activities" in the section "Organisation and management").

Activities in 2011

During the year, the financial markets were affected by unease over economic developments, resulting from sovereign debt problems in the euro area and in the United States. The uncertainty meant that market participants were less willing to take on risk and instead demanded assets that are traditionally considered safe, such as gold and US government securities. As a result of this, there was an increase in the value of both the Riksbank's holdings of gold and much of its holdings of bonds in the foreign currency reserve. Moreover, the US dollar, the Australian dollar and the British pound strengthened against the Swedish krona, which further increased the value of the gold and foreign currency reserves when expressed in Swedish kronor.

The Riksbank's monetary policy transactions amounted to a much lower figure during 2011 than in previous years. The last of the extraordinary loans offered by the Riksbank as a result of the financial crisis 2008–2009 was settled in January 2011. During



the year there was no demand from the banks for Riksbank Certificates; the banking system's liquidity surplus was managed entirely through fine-tuning transactions.

Management of the gold and foreign currency reserves

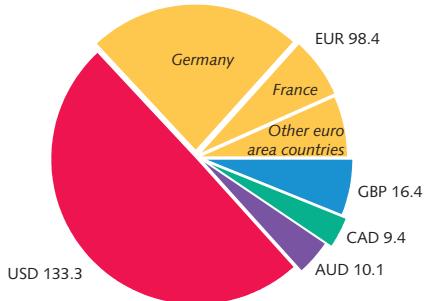
The Riksbank worked prior to 2011 on clarifying what requirements the gold and foreign currency reserves must meet to ensure that the Bank is always able to carry out its tasks. Being able to provide temporary liquidity assistance in foreign currency when needed and at short notice is the task that makes the greatest demands on the composition of the gold and foreign currency reserves. The Riksbank therefore decided in December 2010 to hold reserves that to a larger extent than previously were denominated in the currencies in which liquidity assistance might prove necessary, and in assets that can be quickly converted into liquid funds.

In accordance with this decision, and given the experiences of the most recent financial crisis, the Riksbank increased the percentage of US government securities in the foreign currency reserve in 2011. This was achieved by selling assets issued in euro, exchanging euro for dollars and buying US government bonds to a value equivalent to around SEK 20 billion during the first four months of 2011. Moreover, the Riksbank sold securities issued by US mortgage institutions to a value equivalent to around SEK 6 billion and reinvested the money in US government securities. The Riksbank also switched the currency of the loans made within the scope of the agreement with the Swedish National Debt Office signed in 2009 from euro to US dollars to strengthen the foreign currency reserve.

The Riksbank offers opportunities for skills development every day. Employees are constantly given the chance to increase their competence in meetings with colleagues, by trying out new work tasks, as well as by participating in seminars and courses in Sweden and abroad.

Chart 18

Composition of the foreign currency reserve at the end of 2011, SEK billion

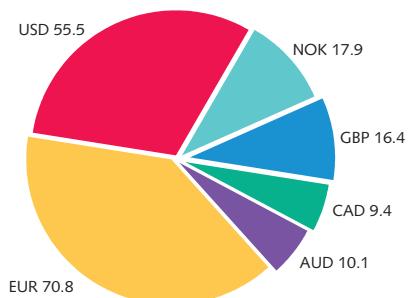


Note: Assets from other euro area countries consisted of government bonds and government-guaranteed bonds from Austria, Belgium, Italy, the Netherlands and Spain.

Source: The Riksbank.

Chart 19

The Riksbank's foreign currency exposure at the end of 2011, SEK billion



Source: The Riksbank.

Table 5

Sweden's financial obligations to the IMF 2011, SDR million and SEK million respectively

	SDR	SEK
Sweden's maximum obligation	11 333	119 704
Used at the beginning of the year	730	7 708
Used during the year	344	3 636
Used at the end of the year	1 074	11 344
Remaining obligations	10 259	108 360

Source: The Riksbank.

The Riksbank's tasks entail that the foreign currency reserve consists mainly of assets in US dollars and euro. The value of the reserve measured in SEK is thus affected by the fluctuations in the exchange rate of these currencies against the Swedish krona. To spread the risks and thereby attain a higher risk-adjusted return, the Riksbank followed the procedure of previous years and invested a small part of the reserve in other currencies than the US dollar and the euro. These investments mainly were made in British and Canadian government bonds, as well as Australian state and federal government bonds.

The work on clarifying the demands on the gold and foreign currency reserves also resulted in the Riksbank changing the internal decision-making process for the management of the reserve prior to 2011. The decisions regarding the spread of risk were to a greater degree than before made as part of the day-to-day management process. To evaluate whether the Riksbank's asset management creates added value in the form of lower risk or higher return on the foreign currency reserve, the risk-adjusted return on the foreign currency reserve is, with effect from 2011, compared with a corresponding return on a "reference" portfolio. This reference portfolio is composed of the securities the Riksbank would hold to be able to carry out its tasks if it did not need to take the return into account. The reference portfolio thus consists solely of US and German government bonds.

During 2011, the Riksbank worked on an internal inquiry into how to manage currency risk in the foreign currency reserve. This internal inquiry has some points of contact with other issues regarding the Riksbank's balance sheet, which have been the focus for an external inquiry into the Riksbank's financial independence and balance sheet since the autumn. The external inquiry's mandate includes examining whether the size and funding of the Riksbank's foreign currency reserve and the size of the Riksbank's equity capital need to be adjusted, given the experiences from the financial crisis. This inquiry was therefore presented with the results of the Riksbank's internal work in the form of a memorandum on the currency risk in the foreign currency reserve.

Chart 18 shows the composition of the foreign currency reserve at the end of 2011. Assets in US dollars and euro accounted for 50 per cent and 37 per cent of the foreign currency reserve.

As the Riksbank's assets mainly consist of US dollars and euro, the Bank's equity capital is affected by the way the value of the dollar and the euro develop in relation to the Swedish krona. However, the effect on equity capital is counteracted by the Riksbank also having liabilities in US dollars and euro. To further reduce the effect of exchange rate changes, some of the Riksbank's exposure to US dollars was converted in 2011 to exposure to Norwegian kronor with the aid of derivative instruments. Chart 19 shows the Riksbank's currency exposures at the end of 2011.

Taking into account the low interest rates internationally and the increased risk of an increase in interest rates, the Riksbank decided in 2011 to maintain the interest-rate sensitivity of the foreign currency reserve at almost 4, measured as modified duration (see Chart 20). A modified duration of 4 means that the value of the foreign currency reserve would fall by almost 4 per cent if interest rates increased by 1 percentage point, or vice versa.

Prior to 2011, the Riksbank decided that its holdings of gold, amounting to 125.7 tonnes, should remain intact for the year.

During the year, the Riksbank lent a total of USD 398.9 million to the IMF, which in its turn lent this money to Angola, Antigua and Barbuda, the Dominican Republic, Greece, Iceland and Ireland within the framework of the New Arrangements to Borrow, NAB (see the box “International work” in the section “A safe and efficient payment mechanism”). In addition, the IMF lent a total of USD 227.5 million to Greece, Ireland and Portugal that was funded through a capital contribution by the Riksbank. The Riksbank also sold, at the request of the Fund, a total of SDR 87.5 million to Antigua and Barbuda, Belarus, Ecuador, Georgia, Serbia, Sri Lanka, St Kitts and Nevis, and Vietnam for US dollars and euro. In total, the Riksbank’s transactions with the IMF meant that Sweden’s remaining obligation to the Fund declined by SDR 344 million, or by SEK 3 636 million over the year (see Table 5).

Given the uncertain situation in the euro area, the Riksbank decided in December to promote a Riksdag decision that will give the Riksbank the right to sign a bilateral agreement to lend up to a further SEK 100 billion to the IMF. This decision is described in greater detail in the box “International work” in the section “A safe and efficient payment system”.

Follow-up

The Riksbank’s balance sheet increased over the year. At the end of 2011, the balance sheet total amounted to SEK 347.9 billion, which is SEK 21.0 billion more than at the end of 2010. The change is largely due to an increase in the value of the gold and foreign currency reserves over the year.

In 2011, the monetary policy transactions consisted of an extraordinary loan of SEK 500 million and fine-tuning transactions. The loan was settled in January. The fine-tuning transactions amounted to SEK 16.8 billion over the year, which is an increase of SEK 11.7 billion in relation to the previous year. The increase is mainly explained by a decline in the value of outstanding banknotes and coins of SEK 5.3 billion and by the Riksbank transferring SEK 6.2 billion to the Treasury in April 2011 in accordance with a decision by the Riksdag on the allocation of the Riksbank’s profit for 2010.

The interest rate the Riksbank pays on the deposits of the banking system’s liquidity surplus through fine-tuning transactions amounts to the current repo rate minus 0.1 percentage points. During 2011, the fine-tuning transactions resulted in interest expenses to the Riksbank of SEK 271.3 million.

Management of the gold and foreign currency reserves

The market value of the gold and foreign currency reserves was SEK 322.7 billion at the end of the year. The reserves consisted of assets in foreign currency to a value of SEK 267.7 billion, gold to a value of SEK 43.5 billion and net receivables from the IMF amounting to SEK 11.5 billion (see Table 6).

The return on the foreign currency reserve amounted to SEK 13.7 billion. The positive return is largely due to a fall in interest rates on several of the markets in which the Riksbank invested. The return excluding foreign exchange effects amounted to SEK 10.6 billion, or 6.4 per cent. Moreover, during the year the currencies in the foreign currency reserve

Table 6

Return on the Riksbank’s asset management in 2011, SEK million

	Assets	Liabilities	Return	Return excl. exchange rate effects
Gold and foreign currency reserves incl. the IMF	346 479	110 435	19 031	10 678
Gold reserve	43 508	–	4 971	–
Foreign currency reserve	267 667	86 674	13 697	10 646
of which strengthening	86 612	86 674	–236	–236
The IMF	35 304	23 761	363	32
Derivative instruments	53	943	–1 136	389
Monetary policy transactions	–	16 832	–271	–271
Total	346 532	128 210	17 624	10 796

Source: The Riksbank.

Chart 20

Modified duration of the foreign currency reserve, 2011



Source: The Riksbank.

Chart 21

Gold price movements, 2011

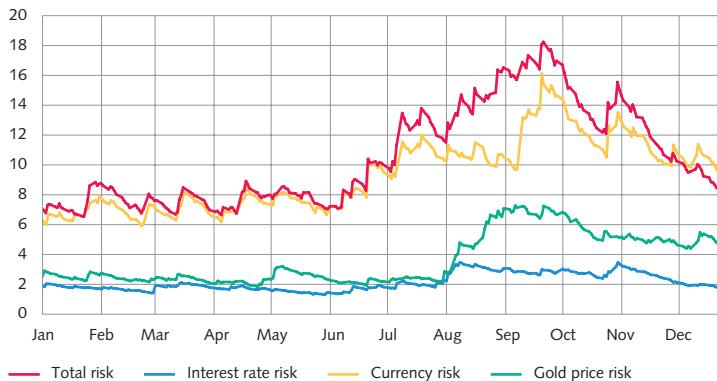


Note: One troy ounce is equivalent to about 31 grammes.

Source: Reuters.

Chart 22

Value-at-Risk for gold and foreign currency reserves, excluding receivables from the IMF, 2011, SEK billion



Source: The Riksbank.

strengthened against the Swedish krona by an average of 0.9 per cent, which also contributed to the positive return. The total exchange rate effect amounted to SEK 3.1 billion.

In May 2009 the Riksbank decided to temporarily strengthen the foreign currency reserve with an amount equivalent to SEK 100 billion, by borrowing foreign currency from the Swedish National Debt Office. The market value of the assets in the foreign currency reserve corresponding to these loans amounted to SEK 86.6 billion at the end of 2011. The net interest income for the year on this part was SEK -236 million.

The price of gold continued to increase again in 2011 and peaked at USD 1 900 per ounce (see Chart 21). The price of gold is normally measured in US dollars, and expressed in dollars it increased by 10.1 per cent. As the dollar also strengthened against the Swedish krona, the price of gold in kronor increased by 12.9 per cent. The value of the Riksbank's holdings of gold thus increased by SEK 5.0 billion over the year.

The value of the Riksbank's receivables from the IMF was SEK 35.3 billion at the end of the year, while the value of the Bank's liabilities to the IMF was SEK 23.8 billion. The return on the net receivables amounted to SEK 32 million over the year, excluding exchange rate effects (see Table 6).

At the end of the year, the total value of the Riksbank's derivative instruments was negative and entailed a debt of SEK 890 million. The return on these derivative instruments excluding exchange rate effects amounted to SEK 389 million over the year, SEK 53 million of which consisted of accrued interest income which is reported on the balance sheet as assets at year-end.

Market risks in the gold and foreign currency reserves

As concern over economic developments grew as a result of the sovereign debt problems in the euro area and the United States, market risk increased during the second half of the year. This was mainly because exchange rates varied more during this period than earlier in the year. The large increase in volatility in the price of gold in connection with the downgrading of the United States' credit rating in August caused market risk to increase. Despite the unease over economic developments persisting throughout the autumn, the risk in the gold and foreign currency reserves declined at the end of the year. One factor contributing to this was that the changes in the price of gold and the value of the foreign currency reserve offset one another to a greater degree than usual.

At most, market risk amounted to SEK 18.2 billion, measured as VaR (see Chart 22). This is SEK 7.8 billion higher than the average market risk in the gold and foreign currency reserves during the year, which in terms of VaR amounted to SEK 10.4 billion. Regarded across the year as a whole, exchange rate fluctuations contributed the most to the risk in the gold and foreign currency reserves.

Analysis of the management of the foreign currency reserve

The return on the foreign currency reserve excluding exchange rate effects amounted to 6.4 per cent during the year. The corresponding return on the reference portfolio the Riksbank started using in 2011 to evaluate its asset management amounted in the same period to 8.1 per cent. As the foreign currency reserve had lower interest-rate sensitivity than the reference portfolio, the assets in the foreign currency reserve did not increase in value as much when market rates fell during the year.

However, the lower sensitivity to interest rates in the foreign currency reserve caused at the same time the risk in the foreign currency reserve to be lower than that in the reference portfolio. The fact that investments in the foreign currency reserve have also been spread over several assets where the changes in value offset one another also contributed to further reducing the risk in the foreign currency reserve. During the year the risk in the foreign currency reserve amounted to 2.7 per cent, measured as a standard deviation without taking into account foreign exchange effects, while the risk in the reference portfolio amounted to 4.0 per cent.

If one adjusts the return to take these risks into account, the return on the foreign currency reserve is higher compared with the return on the reference portfolio. Measured as a Sharpe ratio, the risk-adjusted return on the foreign currency reserve amounted to 2.3, while the corresponding ratio for the reference portfolio was 1.9.



Asset management costs

The costs of asset management include both costs for managing the gold and foreign currency reserves and costs for implementing monetary policy. In addition to the transaction costs charged directly to the return on assets, the total costs of asset management amounted to SEK 91 million, which can be compared to the corresponding cost in 2010, which was SEK 86 million.

A good working climate presupposes that employees can combine work and private life satisfactorily. The Riksbank therefore strives to ensure that employees can combine their work with family responsibilities and leisure interests.

Seignorage

The Riksbank issues the banknotes and coins that are used as legal tender in Sweden. The nominal value of these banknotes and coins is reported as a liability on the Riksbank's balance sheet. The Riksbank does not pay interest on this liability to those who hold these banknotes and coins, but nevertheless incurs some costs for the handling of banknotes and

coins. The difference between the return on the Riksbank's assets that corresponds to banknotes and coins in circulation and the Riksbank's total cost of cash management is known as seignorage. A more detailed description of the method used to calculate the Riksbank's seignorage can be found in the Riksbank's Annual Report 2008.

The Riksbank's estimated seignorage for 2011 is SEK 2.3 billion, which corresponds to a return of 2.3 per cent. The basis on which seignorage is calculated can be found in the Riksbank's balance sheet and profit and loss account and in the reporting of the Bank's administrative expenses by function.

■ Organisation and management

The Riksbank continued to develop its organisation and management to further increase efficiency and quality in the Bank's activities. A new strategic plan for the coming years was drawn up after several years of consolidating activities. All departments and functions also carried out a review of the targets and indicators for their activities. Moreover, a compliance function was established in the General Secretariat. The regular follow-up and evaluation showed a satisfactory result in the Riksbank's work on following the vision and strategic plan for the year. For instance, the annual employee survey showed that the Riksbank is much appreciated as a workplace and that its employees are highly committed to their work.

In 2011 the Riksbank consisted of seven departments (see Figure 2). Three of the departments work directly with the Bank's main tasks: the Monetary Policy Department, the Financial Stability Department and the Asset Management Department.

A Management Group consisting of the heads of all departments, with the exception of the Internal Audit Department, has the task of coordinating and following up activities. The head of the General Secretariat chairs the Management Group. There are also two sub-groups: an administrative management group consisting of the heads of the Administration Department, the IT Department and the General Secretariat, and a policy management group consisting of the heads of the Monetary Policy Department, the Financial Stability Department, the Asset Management Department and the General Secretariat. The purpose of the division into sub-groups is to better coordinate different administrative projects and processes as well as interdepartmental policy issues. The head of the General Secretariat also chairs the two smaller management groups.

Changes in the structure of the organisation

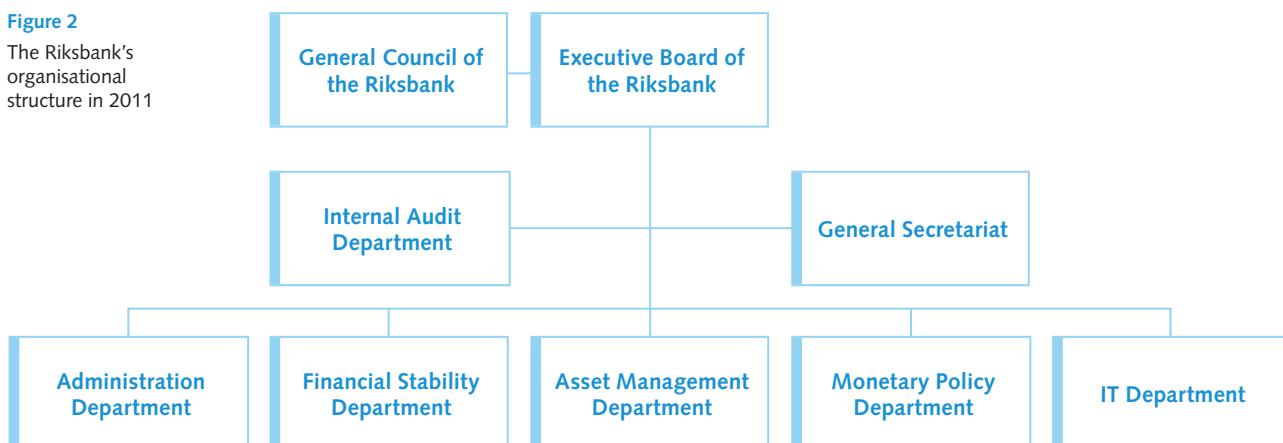
During the year the Riksbank worked on preparing and making certain changes in the organisation to further adjust it to the Bank's activities and thus create more efficient decision-making and preparatory processes.

In June the Executive Board decided to clarify the work on compliance issues and appoint a Chief Compliance Officer to increase the efficiency of the work on follow-up and internal control of the Riksbank's observance of regulations. The new post is located in the Risk Division within the General Secretariat.

Moreover, in January the Executive Board made a decision in principle to outsource parts of the Bank's IT activities. This applies to IT support and the operation and administration of the Riksbank's IT infrastructure. The purpose of outsourcing is to attain a long-term, secure access to IT competence, to better vary the access to IT resources according to the changing needs of the Bank's activities and to retain or improve cost-efficiency. The procurement process was initiated later in the year.

Figure 2

The Riksbank's organisational structure in 2011



The departments of the Riksbank and their tasks

■ Administration Department

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

Head of Department: Agneta Rönström

Number of full-time equivalents at year-end: 64

■ Financial Stability Department

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

Head of Department: Mattias Persson

Number of full-time equivalents at year-end: 54

■ Asset Management Department

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

Head of Department: Sophie Degenne

Number of full-time equivalents at year-end: 34

■ Monetary Policy Department

The Monetary Policy Department is responsible for the economic analysis that provides a basis for the decisions made to meet the price stability target. It also conducts monetary and foreign exchange policy operations in accordance with the monetary policy decisions. In addition, the department has the main responsibility for all analysis of interest and foreign exchange rates. The department monitors and analyses economic and price developments, and is responsible for financial market and balance of payments statistics. This department also contains the Riksbank's Research Division.

Head of Department up to 1 December 2011: Per Jansson

Acting Head with effect from 2 December 2011 and appointed Head of Department with effect from 20 January 2012: Marianne Nesselén

Number of full-time equivalents at year-end: 80

■ Internal Audit Department

The Internal Audit Department examines and assesses whether risk management and the governance and management processes fulfil their purpose with regard to the objectives established for the Riksbank's activities. The department also contributes to the effectiveness and improvement of these activities.

Head of Department: Patrick Bailey

Number of full-time equivalents at year-end: 4

■ IT Department

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

Head of Department: Hans Ohlson

Number of full-time equivalents at year-end: 51

■ General Secretariat

The General Secretariat coordinates day-to-day operations and supports the Executive Board's governance and control, as well as strategic development of the Bank's activities. The department also provides secretariat services for the General Council, the Executive Board and the Management Group. The General Secretariat coordinates the Riksbank's communications work and work on operational and financial risks. The department also contains functions for regulatory compliance assurance, business continuity coordination and legal support.

Head of Department: Kai Barväll

Number of full-time equivalents at year-end: 39

In December 2011 Anders Vredin was appointed the new Head of the General Secretariat. He will take up the post on 1 May 2012, as Kai Barväll will leave this post when he reaches the age of retirement.

■ Management of activities

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

The Riksbank's vision is that the Bank shall be "among the best" with regard to quality and efficiency in order to maintain a high level of confidence. This means that the Riksbank must be among the best in comparison with other central banks, other authorities, academic institutions and private companies.

New strategic plan

In 2011 the Riksbank drew up a new strategic plan for activities over the coming three to five years. The plan shows how the Riksbank shall work to perform its statutory tasks and attain its vision, both on the basis of the external factors affecting the work and with regard to the established level of ambition for the various areas of activity and the strategic risks the Bank needs to take into account.

The new strategic plan contains ten strategic priorities for developing activities over the coming years. For instance, the Riksbank is to develop its role and capacity in the work with financial stability on the basis of the lessons learnt from the most recent financial crisis. The Riksbank is also to develop and adapt the conceptual framework for monetary policy by, for instance, better taking into account financial aspects in the monetary policy work. The plan begins to apply as a base for the annual business planning with effect from 2012. Then activities will enter a new phase of development, on the basis of new experiences gained in the most recent financial crisis. This follows on from a number of years of transformation

and consolidation, when the Riksbank has evaluated and streamlined its activities to be able to invest in the Bank's main tasks: monetary policy and financial stability.

Internal controls

Pursuant to the provisions of the Sveriges Riksbank Act, the Executive Board of the Riksbank presents, with effect from 2011, an assessment on the adequacy of internal controls at the Bank. The work on creating a coordinated and well-documented process for internal controls was begun as early as 2008, with the aim of improving the overall view, increasing risk awareness and making it possible for the Executive Board to present a well-founded assessment.

The Executive Board is ultimately responsible for internal controls and establishes the overall policies and rules that govern the Bank's activities. Responsibility for the day-to-day management and control of activities – their efficiency, results and risk management – rests with the Heads of Department, who, in turn, report to the Executive Board. However, each employee has a responsibility to point out risks and report incidents in the Bank's activities.

The Risk Division in the General Secretariat supports the Riksbank's activities with guidelines, methods and advice in all risk areas. This Division also reports its independent assessment of the Riksbank's financial and operational risks on aggregate to the Executive Board three times a year. The Executive Board has also commissioned the Internal Audit Department to carry out an independent evaluation of internal controls and risk management in the operational activities.

Within the scope of the work on internal controls, the Riksbank further developed its process for risk management in 2011. Moreover, the Riksbank made a general survey of its other processes. This survey

Risks in the Riksbank's activities

The Riksbank's activities entail both financial and operational risks. The financial risks mainly arise in the management of the foreign currency reserve. They are described in greater detail in the section "Asset management".

The operational risks arise when the Riksbank performs its tasks and thus arise in all activities. Some risks arise in the slightly longer run, and are related to future changes. Other risks are contained in the day-to-day work or in ongoing change activities.

To succeed in its tasks, it is important that the Riksbank has the capacity to quickly identify and manage the changes in the surrounding world. This applies above all to developments on the financial markets, but may also concern, for instance, the

potential threats to cash handling or IT support. If important signals are not discovered in time, the consequence may be that the Riksbank's analyses or operational activities cannot be adapted quickly enough.

The risks that have been identified in day-to-day activities are related, for instance, to the handling of confidential information, IT security, overall internal processes and dependence on key personnel and external parties. These risks can above all affect the efficiency and ability to attain the operational goals. If the risks lead to incidents, they may also affect confidence in the Riksbank.

The Riksbank therefore works systematically on risk management and has a single process for the whole bank for managing

operational risks, which involves identifying the risks and evaluating them in the same way for all activities. This process was introduced in 2009 and has been regularly developed since then. In 2011, risk management was integrated with business planning through a coordinated process for documentation and follow-up.

The risk level in 2011 was mainly affected by the preparations for outsourcing of IT activities and the work on developing new forms for cash handling. The incidents that occurred in the Riksbank's activities did not entail any serious risks and could be handled through the Riksbank's normal routines.



was supplemented with an in-depth description and evaluation of the processes in asset management. Prior to the Executive Board's formal assessment in the Annual Report, the internal controls in the Bank's activities were evaluated with regard to factors such as the control environment, risk management, control activities, information and communication, as well as follow-up and evaluation.

Most indicators point to a satisfactory result in 2011

The Riksbank divides its tasks into different target areas to be able to set targets, manage and evaluate activities. In 2011 the Riksbank's activities were divided into seven activity areas: monetary policy, financial stability, the RIX payment system, cash provision, asset management, statistics and an overall bank-wide area. The bank-wide area was further divided up into seven target areas: communication, employees, management and governance, IT, administrative support and service, environment and resources.

For each target there are one or more indicators that together provide a picture of how the Riksbank is developing in this area. For instance, the Riksbank examines whether the controls in asset management are adequate by analysing the number of limit and mandate infringements and the number of compensation demands from counterparties that were paid. The Executive Board also follows up operational risks in the Bank's activities per target area, coordinated with the follow-up of the activities.

The Executive Board received two follow-up reports in 2011 containing the status of the indicators, the prioritised action plans and the budget. In total, 86 indicators were linked to the strategic goals in the 2011 business plan. Some indicators have been developed since the 2010 business plan. For instance, there are new indicators to evaluate the target of a simplified IT environment, and within asset management the means of evaluating the return and the preparedness for the policy tasks have been developed.

As part of the work on constantly developing the Riksbank's activities and improving the methods of evaluating the Bank's results, all departments and functions reviewed their respective targets and indicators in autumn 2011. This review resulted in new targets and indicators being formulated in most areas. The activities will be evaluated on the basis of the new targets with effect from 2012.

Most strategic targets attained

In the follow-ups during the year most indicators pointed to a satisfactory performance. This applies, for example, to inflation expectations, which in a five-year perspective were close to the inflation target, and the availability of the payment system, which was 100 per cent.

Some indicators pointed to a poorer result. For example, the Riksbank provided technical assistance to a number of central banks to a lesser degree than planned as the demand for expert assistance was lower than expected.

Confidence still high among various target groups in society

According to the Riksbank's vision, confidence is its most important asset. The Riksbank therefore uses regular external surveys to measure how well the Bank has achieved its confidence targets. One example is the annual survey of Swedish households carried out by the SOM Institute in Gothenburg. The most recent survey, which was carried out in autumn 2010 and presented in spring 2011, shows that the Swedish public's confidence in the Riksbank is high: 56 per cent of the respondents have very high or fairly high confidence in the Riksbank. This puts the Riksbank in third place among social institutions, after healthcare and the police. It is the highest level the Riksbank has attained in the SOM Institute's surveys since its inclusion. In the previous survey the Riksbank was in fourth place.

The confidence barometer presented by Medic-akademien in November 2011 showed a decline in public confidence from 63 per cent in 2010, to 55 per cent in 2011. However, the Riksbank is still at a relatively high level, compared with other social institutions, where it is only healthcare, the universities and higher education institutions that enjoy higher confidence from the general public.

With effect from 2007, the Riksbank has also made its own target group analysis to find out the level of knowledge about and the attitude to the Riksbank's work among members of the Riksdag, participants in the financial markets, financial journalists and representatives of public authorities, the social partners and the business sector. The target group analysis in 2011 showed that the attitude of these groups to the Riksbank has developed positively since the two previous surveys in 2007 and 2009. The target groups have a high level of confidence in the Riksbank, the Governor of the Riksbank and in the Riksbank's monetary policy and work with financial stability. Their knowledge of financial stability has also increased. Moreover, the target groups perceive the Riksbank as competent, open and easy to follow. On the other hand, the Riksbank needs to clarify its communication, as several target groups perceive the Bank to have been unclear in its communication for some time now. This applies in particular to the speeches by Executive Board members.



Prior to or after an intensive day at work, employees can take part in one of several workouts offered on the Riksbank's own premises. The Riksbank building houses a gym, a pool and an exercise room.

Openness and accessibility in communication
The Riksbank carried out a “reader value survey” in 2011 to better understand how the target groups read and use the Monetary Policy Report. This survey, which was based on the Monetary Policy Report published in October 2010, shows that 92 per cent of the respondents consider the report to be a fairly good or very good publication. The majority are also very satisfied with the design, layout and language of the report.

Additionally, the Riksbank regularly analyses its media image. The topics that attracted great attention in the media in 2011 were the motifs for the new banknotes, the General Council’s decision to extend Stefan Ingves’s period of office as governor, and the appointment of two new members to the Executive Board. The media also focused on the Riksbank’s analysis of developments in the housing market, economic activity in Sweden and the concerns over sovereign debt in the euro area. Media publicity during the year was largely neutral and the Riksbank was to a great extent portrayed as open and accessible.

■ Employees

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

Recent years’ employee surveys show that the Riksbank is a good workplace and that its employees are highly committed to their work. The responses to the 2011 employee survey indicate that the employees are very satisfied with their work situation and feel motivated in their work. The areas that receive the highest marks are the Bank’s management and opportunities for competence development. However, there is still room for improvement at divisional level with regard to developing more efficient working routines and a better distribution of labour.

The Riksbank as an attractive employer

For many years, the Riksbank has worked on strengthening the brand “the Riksbank as a workplace” to recruit competent staff and retain present staff. This strategic work, known as employer branding, has resulted in the Riksbank attaining a high ranking as an attractive workplace in various surveys of students and young professionals with a maximum of eight years’ working experience. In 2011 the Riksbank was awarded a prize given by Universum, a survey company, to the organisation considered to be best at employer branding. This is one sign that the work on highlighting the Riksbank as an interesting and stimulating workplace has had positive results.

The work on employer branding focused in 2011 on trying to give a picture of what the Riksbank actually works with. This includes showing what tasks employees perform and in what ways they are able to develop their career within the organisation. For instance, the Riksbank was promoted as an employer on its own website, in newspaper articles, on career websites, through its own job advertisements and in direct contacts with young economists.

Career at the Riksbank

At the Riksbank the employees can choose two different career paths – the management career or the advisor career. For several years now, the Riksbank has been emphasising the development of leadership skills and support to managers. In 2011 the leadership development focused on “clear leadership”. Managers worked on communicating the operational targets clearly, ensuring that all employees understand these targets and then giving each individual employee support in working towards the set targets.

As of 2010, there is a corresponding training programme for the Bank's advisors. Its purpose is both to support the advisors' competence development and to create an internal network to disseminate knowledge and experience across departmental borders.

The Riksbank also takes part in special programmes for career development for junior economists. The trainee programme run by the Riksbank together with Finansinspektionen and the Swedish National Debt Office in 2009–2010 has now been evaluated. The conclusion is that all of the programme's objectives have been attained with a good margin. For instance, the programme has contributed to developing the cooperation and transfer of competence between the three authorities. Three of the six trainees taking part in the programme were employed in full-time posts at the Riksbank. In 2011 the authorities began recruitment for another trainee programme, which will begin in 2012.

International exchange and international career opportunities

The Riksbank regularly participates in around 130 international committees and working groups, and also has direct contacts with other central banks, and with the IMF and the BIS. Several of the Riksbank's employees provide expert assistance in these contexts and represent the Riksbank in discussions regarding questions within the Bank's areas of responsibility. As of 2010, it is also increasingly common for employees to choose to develop their competence by working abroad for a period of time.

The Riksbank encourages its employees to choose working a few years in an international environment as part of their career path. In this way, employees gain a deeper and broader competence, while the Riksbank can increase its influence in high-priority areas in a long-run perspective. The Riksbank therefore works actively on motivating its employees to seek temporary posts abroad, for instance, by enabling the families of its employees to accompany them abroad. During 2011 some of the Riksbank's employees were stationed in Sydney, Washington, Boston, Brussels, Frankfurt and Basel.

Diversity makes for efficient working groups

The work on recruitment processes, which promotes recruitment on the basis of competence and prevents discrimination, is part of the Riksbank's long-term strategy for competence management. This strategy entails the Riksbank endeavouring to compose well-structured working groups that consist of people with different experiences and perspectives, which are thus more efficient and dynamic than groups consisting of similar individuals. The Riksbank therefore further developed its recruitment processes in 2011, with the aim of further improving the quality and efficiency of both the actual recruitment process and the final selection of applicants.

One of the objectives of the Riksbank's diversity work is to achieve an even gender distribution. During the year, 45 per cent of managers were female, which exceeds the target previously set that the under-represented gender should be at least 40 per cent. However, at the same time, 32 per cent of advisers were female.

Health programme in collaboration with the occupational health service

During 2010–2011, employees of the Riksbank were given the opportunity to take part in a major health programme in collaboration with the occupational health service. Each employee was offered a health profile assessment, a muscle and movement analysis and four sessions with a personal trainer during the course of a year. The health programme was rounded off at the end of 2011 with a follow-up health profile assessment. Almost all of the Riksbank's managers and a majority of the other employees took part in the programme.

The sickness rate among the Riksbank's employees was 1.2 per cent in 2011, which is a reduction of 0.5 percentage points compared with 2010.

■ Governance

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

Executive Board of the Riksbank

The Executive Board of the Riksbank consists of six members appointed by the General Council for a term of five or six years. The General Council appoints the Chairman of the Executive Board, who shall at the same time be Governor of the Riksbank, and at least one Vice Chairman, who shall at the same time be a Deputy Governor of the Riksbank. The General Council also determines salaries and other employee benefits for the members of the Executive Board. The Executive Board consists of the following members:



Stefan Ingves



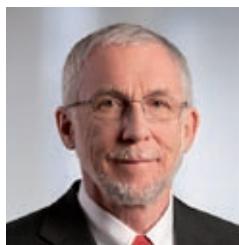
Kerstin af Jochnick



Karolina Ekholm



Per Jansson



Lars E.O. Svensson



Barbro Wickman-Parak

■ Stefan Ingves

Term of office six years from 1 January 2006, new term of office six years from 1 January 2012

Stefan Ingves is Governor of the Riksbank and Chairman of the Executive Board. Mr Ingves is a member of the European Central Bank (ECB) General Council and a member of the Board of Directors of the Bank for International Settlements (BIS), as well as Sweden's Governor in the International Monetary Fund (IMF). As of 2011, Mr Ingves is also Chairman of the Basel Committee on Banking Supervision and Chairman of the Advisory Technical Committee of the European Systemic Risk Board (ESRB), as well as a member of the Financial Stability Board (FSB). Mr Ingves holds a PhD in economics and prior to taking up the post of Governor of the Riksbank he headed the Department for Monetary and Financial Systems at the IMF. Before that he had been Deputy Governor of the Riksbank, Director General of the Swedish Bank Support Authority, and Under-Secretary and head of the Financial Markets Department at the Ministry of Finance.

■ Kerstin af Jochnick

Term of office six years from 1 January 2012

Kerstin af Jochnick is First Deputy Governor of the Riksbank. She represents the Riksbank on the Advisory Technical Committee of the European Systemic Risk Board (ESRB). Ms af Jochnick is an economist and has previously been Managing Director of the Swedish Bankers' Association, chaired the Committee of European Banking Supervisors (CEBS), and been head of department at Finansinspektionen. She worked at the Riksbank during the period 1977–1991.

■ Karolina Ekholm

Term of office six years from 15 March 2009

Karolina Ekholm is Deputy Governor of the Riksbank. She is the Governor of the Riksbank's alternate on the ECB General Council and participates together with the Governor of the Riksbank in BIS board meetings and BIS Governors' meetings. She represents the Riksbank in the FSB's regional group. From 2010 Ms Ekholm is on leave of absence from her professorship at the Department of Economics at Stockholm University. She has previously been a lecturer and researcher at Stockholm University, Stockholm School of Economics and researcher at the Research Institute of Industrial Economics.

■ Per Jansson

Term of office five years from 1 January 2012

Per Jansson is Deputy Governor of the Riksbank. He represents the Riksbank on the EU's Economic and Financial Committee (EFC) and on the BIS Committee on the Global Financial System. Mr Jansson is an associate professor in economics and prior to taking up the post of Deputy Governor of the Riksbank he was Head of the Riksbank's Monetary Policy Department. Before that he worked as State Secretary at the Ministry of Finance and deputy head of department at the National Institute of Economic Research. He has also worked at the Riksbank as deputy head of department from 2003 to 2006 and as head of division from 1996 to 2000.

■ Lars E.O. Svensson

Term of office six years from 21 May 2007

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

■ Barbro Wickman-Parak

Term of office six years from 21 May 2007

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

Members who left their posts at the turn of the year 2011/12:

Svante Öberg, term of office six years from 1 January 2006

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

Lars Nyberg, term of office six years from 1 January 2006

Lars Nyberg was Deputy Governor of the Riksbank. He was appointed by the Government to the Board of Finansinspektionen. Mr Nyberg was the Riksbank's representative on the Advisory Technical Committee of the European Systemic Risk Board and on the BIS Committee on the Global Financial System. Mr Nyberg is an associate professor in economics and has previously been Deputy CEO at Svenska Handelsbanken and Föreningssparbanken and CEO of Länsförsäkringsbolagens förening. He was the Riksbank's spokesperson in the area of stability and efficiency in the payment mechanism.

The Executive Board's tasks

The Executive Board has a joint responsibility for the strategic management of the Riksbank and decides on the instructions for the Bank. The role of the Executive Board as a strategic decision-maker means that its work focuses on central decisions regarding monetary and exchange rate policy, important issues in the area of financial stability and the Riksbank's asset management. The Executive Board also makes the overall decisions on the Riksbank's activities, such as decisions on strategic objectives, its business plan and budget and how these are followed up. At the same time, the Governor of the Riksbank has a clear mandate to follow up activities in relation to adopted plans and approved budget. The Governor of the Riksbank also has managerial responsibility for the heads of department, who prepare and submit proposals or background material to the Executive Board on matters that are decided by the Board.

The Executive Board makes decisions jointly at its meetings. The Chairman and the Vice Chairman of the General Council have the right to attend the Executive Board's meetings. They are not, however, entitled to vote or make proposals.

The Executive Board in 2011

The work of the Executive Board was marked by increased unease on the financial markets as a result of sovereign debt problems in several countries in the euro area and in the United States. Board members took part in many seminars and conferences and held speeches. Several of the speeches regarded financial stability and regulation, for example Stefan

Ingves's speech "Basel III – regulations for safer banking". Other subjects taken up in the speeches were current monetary policy, the economic situation and the repo-rate path. In total, Executive Board members held 159 speeches over the year, 28 of which were published on the Riksbank's website.

The Executive Board presents a written report on monetary policy to the Riksdag Committee on Finance twice a year. This report is supplemented on each occasion by a public hearing of the Governor of the Riksbank at the Committee. In addition to the two monetary policy hearings of the Governor, members of the Executive Board took part on a number of occasions in public and closed hearings at the Riksdag committees to discuss other issues, for instance the Committee on Finance's external evaluation of the Riksbank's monetary policy and work with financial stability 2005–2010, developments in the credit and housing markets and the proposed framework for bank resolution in the EU. The members of the Executive Board also took part in conferences and seminars organised by the Riksbank during the year. For instance, all of the Board members took part in a seminar on the Riksbank's own evaluation of monetary policy in 2010 and in a seminar on bank resolution, which was organised together with the ECB and held in Stockholm.

The Board held a total of 29 meetings during 2011, six of which were monetary policy meetings.

External assignments of the Executive Board members

If a member of the Executive Board wishes to take up employment or an assignment in addition to their employment at the Riksbank, this must be approved by the General Council. The following is a list of the external assignments of the members of the Executive Board at year-end 2011. These have been approved by the General Council and are reviewed every second year.

Stefan Ingves

- Member of the Board of The Toronto International Leadership Centre for Financial Sector Supervision
- Member of The Royal Swedish Academy of Engineering Sciences

Karolina Ekholm

- Member of the advisory committee of The Knut Wicksell Centre for Financial Studies

Lars E.O. Svensson

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

General Council

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

The General Council consisted of the following members on 31 December 2011: Johan Gernandt (Chairman), Sven-Erik Österberg (Vice Chairman), Peter Egardt, Sonia Karlsson, Bertil Kjellberg, Anders Karlsson, Gun Hellsvik, Lena Sommestad, Allan Widman, Peter Eriksson and Roger Tiefensee. The deputy members were Hans Birger Ekström, Fredrik Olovsson, Ulf Sjösten, Ann-Kristine Johansson, Chris Heister, Bosse Ringholm, Per Landgren, Catharina Bråkenhielm, Christer Nylander, Agneta Börjesson and Håkan Larsson.

The General Council's tasks

The General Council appoints the members of the Executive Board and decides on their salaries and other terms of employment. It also adopts the Riksbank's Rules of Procedure and decides on the design of banknotes and coins. The General Council also has the task of regularly monitoring the Riksbank's activities and how the Executive Board manages its business. One of the ways the General Council can perform its supervisory role is through the Chairman and Vice Chairman having the right to attend and speak at the Executive Board meetings, though not the right to vote or make proposals. The General Council has an audit function that, among other things, examines how members of the Executive Board perform their duties and examines the Riksbank's closing procedures with regard to the calculation of the Riksbank's profits.

bank's profits. The work of the audit function is carried out by an external authorised public accountant.

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

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

Twice a year, the Chairman and Vice Chairman report to the Riksdag Committee on Finance about the work of the General Council.

The General Council in 2011

During the year, the General Council held 14 meetings.

The General Council received regular information from the Executive Board about the Riksbank's activities. The Executive Board consulted with the General Council on some submissions to the Government. In June, the General Council appointed Governor Stefan Ingves for a new period of office of six years with effect from 1 January 2012. The General Council also appointed two new Executive Board members during the autumn – Kerstin af Jochnick, for a term of office of six years from 1 January 2012, and Per Jansson, for a term of office of five years from 1 January 2012. Kerstin af Jochnick was at the same time appointed to the position of First Deputy Governor.

An account of the General Council's activities is presented in the chapter "The General Council's Annual Report and Proposal for Allocation of the Riksbank's Profits for 2011".

Formal processing of the Riksbank's Annual Report

Pursuant to the Sveriges Riksbank Act (1988:1385), the Executive Board of the Riksbank must, before 22 February, submit an Annual Report of the Riksbank's activities during the preceding financial year to the Riksdag, the Swedish National Audit Office and the General Council. The Act also states that the Annual Report shall contain a profit and loss account, a balance sheet and an administration report. In the administration report the Executive Board describes how the Riksbank has conducted monetary policy, promoted a safe and efficient payment mechanism and performed its other tasks during the year. With effect from the financial year 2011, the Executive Board also presents an assessment of whether the internal controls at the Riksbank are satisfactory.

The Riksbank's profit and loss account and balance sheet are approved by the Riksdag, which also determines how the Bank's profits shall be allocated. The proposal for the allocation of the Riksbank's profits is presented to the Riksdag by the General Council, which also examines the Bank's closing procedures

with regard to the calculation of its profits. Together with the proposal for the allocation of profits, the General Council also submits its own annual report for the financial year to the Riksdag. The General Council's Annual Report and Proposal for Allocation of Profits are submitted to the Riksdag on the same day as the Riksbank's Annual Report.

The Swedish National Audit Office's audit of the Riksbank's Annual Report shall be complete no later than one month after the Riksbank has submitted the Annual Report to the Riksdag. The Swedish National Audit Office shall then submit an Auditor's Report, containing its observations from the audit, to the Riksdag. The Auditor's Report also contains the Swedish National Audit Office's assessment of whether the Riksdag should adopt the Riksbank's profit and loss account and balance sheet in accordance with the Executive Board's proposal in the Annual Report.

The Riksbank's Annual Report is examined within the Riksdag by the Committee on Finance. The Riksdag Committee on Finance's

task is to prepare the Riksdag's decision with regard to discharging the General Council from liability for their activities and the Executive Board from liability for their administration of the Riksbank, adopting the Riksbank's profit and loss account and balance sheet for the financial year and approving the allocation of the Riksbank's profits for the financial year. When the Riksdag has discharged the Executive Board and the General Council from liability, adopted the Riksbank's profit and loss account and balance sheet and approved the General Council's proposal for the allocation of profits, the Riksbank can transfer the amount decided on to the Treasury. The transfer is normally made one week after the Riksdag's decision, in connection with the Riksbank's implementation of the weekly open market operation.

Later in the same year, the Riksbank reports to the Riksdag what measures the Bank has taken with regard to the National Audit Office's observations. This account is also provided in accordance with the provisions in the Sveriges Riksbank Act.

■ Accounting policies

The balance sheet and the profit and loss account for the Riksbank have been prepared in accordance with the Sveriges Riksbank Act and in accordance with the Rules for Bookkeeping and Annual Accounts at Sveriges Riksbank adopted by the Executive Board on 7 December 2011 (Ref. no. 2011-780-ADM), which came into force on 31 December 2011. The rules for current recording of transactions refer to the Bookkeeping Ordinance (2000:606) and the rules for annual accounts refer to the Guideline of the European Central Bank on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks (ECB/2010/20). Under Chapter 10, Article 3 of the Sveriges Riksbank Act the Riksbank must apply the accounting guidelines of the European Central Bank System where relevant.

Changes in accounting policies

On 7 December 2011 the Executive Board updated the Rules for Bookkeeping and Annual Accounts at Sveriges Riksbank. The update did not entail any change in the Riksbank's accounting policies, but was mainly to replace the rules that were a transcript from the Guideline of the European Central Bank on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks (ECB/2010/20) with a direct reference to that Guideline.

Basic accounting policies

The following basic accounting policies have been applied:

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

Recognition of assets and liabilities

Assets and liabilities are only recognised in the balance sheet if it is probable that any future economic benefit associated with the asset or liability item will flow to or from the Riksbank and that substantially all of the risks and rewards associated with the asset or liability have been transferred to the Riksbank.

Trade-date accounting

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

Balance sheet valuation rules

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

	31.12.2011	31.12.2010
EUR/SEK	8.9141	9.0106
USD/SEK	6.8797	6.7201
GBP/SEK	10.6846	10.4915
AUD/SEK	7.0283	6.8769
CAD/SEK	6.7366	6.7560
SDR/SEK	10.5622	10.3491
NOK/SEK	1.1503	1.1550
JPY/SEK	0.0894	0.0828

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

Shares and participations are recorded at cost of acquisition.

Tangible and intangible assets are recorded at cost of acquisition and depreciated according to plan. Write-downs are made when the impairment loss is judged to be permanent. Write-ups may only be made if the asset has a reliable and permanent value that materially exceeds the book value. Buildings are depreciated over a period of 50 years, other fixed assets over 5–10 years. Machinery and equipment, including computers, is depreciated over 3–7 years. Direct staff costs attributable to IT investments developed in-house are included in the asset's cost of acquisition.

Repurchase agreements

Repurchase agreements are reported as loan transactions and therefore do not affect the holdings of securities and gold. A repurchase agreement is an agreement to sell assets, such as securities or gold, whereby the seller simultaneously undertakes to repurchase the assets at a specified price on a specific date in the future.

Assets pledged by the Riksbank as collateral for repos continue to be reported in the balance sheet and are recorded in accordance with the applicable rules for the Riksbank's other holdings of securities and gold. An amount equivalent to the purchase sum received is reported as a liability, while the transferred assets are reported as memorandum items.

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

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

Banknotes and coins

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

Recognition of income

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

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

Unrealised losses are recognised in profit and loss if they exceed unrealised gains that may have been previously recorded in the corresponding revaluation account. Unrealised losses recognised in profit and loss may not be reversed in later years to offset new unrealised gains. Unrealised losses in a particular security, a particular currency or gold are not netted against unrealised gains in other securities, currencies or gold.

Premiums and discounts on securities purchased are calculated and reported as part of interest income and are written off during the security's remaining time to maturity.

Cost of transactions

With regard to gold, instruments in foreign currencies and securities, the average method is used daily to establish the cost of acquisition of items sold when calculating effects of exchange rates and prices. When acquisitions of currency and gold are netted, the average cost of acquisition for the day's acquisition with regard to each individual currency and gold is added to the previous day's holdings to obtain a new weighted average of the exchange rate or the gold price respectively. To calculate net sales, the realised gain/loss is calculated on the basis of the average cost of acquisition on the previous day for the holding in question.

Derivative instruments

Derivative instruments are recorded contract by contract within each group of derivative instruments. Groups with a positive value are recorded as assets and those with negative value as liabilities.

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

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

Interest rate swaps are booked, for both the incoming and outgoing transactions, at an amount corresponding to the difference between the nominal amount of the contract and the nominal amount translated at the closing day rate. The resulting amount is translated to SEK at the closing day exchange rate.

Gold options are booked on the trade date in an amount corresponding to the premium paid or received. On the closing day the book value is adjusted to a value corresponding to the number of troy ounces in the contract translated at the closing day option price and exchange rate. The option price is calculated on the basis of a recognised calculation model.

Futures contracts are booked daily as realised gains/losses in an amount corresponding to the value calculated in the daily settlement.

■ Balance sheet

SEK million	Note	31.12.2011	31.12.2010
ASSETS			
Gold	1	43 508	38 537
Claims on residents outside Sweden denominated in foreign currency		300 186	282 555
Receivables from the IMF	2	35 294	31 175
Balances with banks and security investments	3	264 892	251 380
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		0	500
Main operations	4	–	–
Fine-tuning operations	5	–	–
Structural operations	6	–	500
Marginal lending facility	7	0	0
Other assets		4 223	5 334
Tangible and intangible fixed assets	8	502	389
Financial assets	9	521	521
Derivative instruments	10	–	584
Prepaid expenses and accrued income	11	2 873	3 522
Other assets	12	327	318
Total assets		347 917	326 926

SEK million	Note	31.12.2011	31.12.2010
LIABILITIES AND EQUITY			
Banknotes and coins in circulation			
Banknotes	13	94 771	99 902
Coins	14	5 365	5 499
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		16 875	5 142
Deposit facility	15	44	45
Fine-tuning operations	16	16 831	5 097
Debt certificates issued	17	–	–
Liabilities to residents outside Sweden denominated in Swedish kronor	18	106	69
Liabilities to residents in Sweden denominated in foreign currency	19	86 497	83 774
Liabilities to residents outside Sweden denominated in foreign currency	20	–	431
Counterpart of Special Drawing Rights allocated by the IMF	21	23 754	23 275
Other liabilities		1 283	535
Derivative instruments	22	943	–
Accrued expenses and prepaid income	23	252	488
Other liabilities	24	88	47
Provisions	25	203	220
Revaluation accounts	26	48 356	35 102
Equity		66 777	72 429
Capital	27	1 000	1 000
Reserves	28	65 777	71 429
Profit for the year		3 930	548
Total liabilities and equity		347 917	326 926

Memorandum items, see Note 41.

■ Profit and loss account

SEK million	Note	2011	2010
Interest income	29	5 493	7 717
Interest expense	30	-1 359	-2 135
Net result of financial transactions	31	209	-5 123
Fees and commissions income	32	70	67
Fees and commissions expense	33	-8	-11
Dividends received	34	51	134
Other income	35	168	603
Total net income		4 624	1 252
Staff costs	36	-372	-345
Administrative expenses	37	-261	-240
Depreciation of tangible and intangible fixed assets	38	-51	-63
Banknote and coin expenses	39	-10	-56
Other expenses	40	-	-
Total expenses		-694	-704
Profit for the year		3 930	548

Cash flow statement

SEK million	31.12.2011	31.12.2010
OPERATING ACTIVITIES		
Cash flow from operating activities	5 160	11 263
Interest received	6 185	10 892
Interest paid	-1 605	-2 215
Net received from financial transactions	1 134	3 133
Fees and commissions received	70	67
Fees and commissions paid	-8	-11
Other income	26	67
Administrative expenses paid	-642	-670
Cash flow from operating activities, assets	-1 609	358 304
Gold	-	-
Receivables from the IMF	-2 707	-4 682
Security investments	607	-5 324
Claims on residents in Sweden denominated in foreign currency	-	-
Structural operations	500	368 301
Other assets	-9	9
Cash flow from operating activities, liabilities	6 507	-364 773
Banknotes and coins in circulation	-5 123	-4 726
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	11 733	-166 021
Debt certificates issued	-	-192 222
Liabilities to residents outside Sweden denominated in Swedish kronor	37	-1
Liabilities to residents in Sweden denominated in foreign currency	259	-3 674
Liabilities to residents outside Sweden denominated in foreign currency	-343	343
Other liabilities	-56	1 528
Cash flow from operating activities	10 058	4 794

The table continues on the next page.

SEK million	31.12.2011	31.12.2010
INVESTING ACTIVITIES		
Acquisition and disposals of tangible and intangible fixed assets	-165	-46
Acquisitions and disposals of financial assets	-	0
Dividends received	51	134
Cash flow from investing activities	-114	88
FINANCING ACTIVITIES		
Transfer to the Treasury	-6 200	-5 800
Cash flow from financing activities	-6 200	-5 800
Cash flow for the period	3 744	-918
Cash and cash equivalents at beginning of period	2 094	3 141
Cash flow from operating activities	10 058	4 794
Cash flow from investing activities	-114	88
Cash flow from financing activities	-6 200	-5 800
Exchange rate difference on cash and cash equivalents	-4	-129
Cash and cash equivalents at end of period	5 834	2 094
SPECIFICATION OF CASH AND CASH EQUIVALENTS		
Bank accounts and bank lending denominated in foreign currency, see Note 3	5 834	2 094
Main operations	-	-
Fine-tuning operations	-	-
Marginal lending facility	0	0
Total cash and cash equivalents	5 834	2 094

The cash flow statement shows incoming and outgoing payments during the period as well as cash and cash equivalents at the beginning and end of the period. The cash flow statement is divided into payments from operating activities, investing activities and financing activities.

Operating activities

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

In order to better reflect the results of cash flow from operating activities, as of 2011 amortisation of premiums and discounts on securities is reported as cash flow under 'Interest received' instead of under 'Security investments'. In 2011 this amortisation amounted to SEK -2 130 million (-2 359).

Investing activities

Investing activities consist of the purchase and sale of tangible and intangible fixed assets, as well as those shares and participations that are reported under financial assets. Dividends received from holdings of shares and participations are also included.

Financing activities

Financing activities consist of changes in equity that usually occur through dividends, also known as transfer to the Treasury.

Notes SEK million. Figures in brackets refer to 2010.

Note 1 Gold

	31.12.2011	31.12.2010
Quantity		
Troy ounces (million)	4.0421	4.0421
Pricce		
USD/troy ounce	1 564.5241	1 418.6948
SEK/USD	6.8797	6.7201
Book value	43 508	38 537

As of 31 December 2011, the Riksbank holds 4 million troy ounces (troy/oz) of gold (4), which is equivalent to 125.7 tonnes. No gold was sold in 2011.

Note 2 Receivables from the IMF

	31.12.2011	31.12.2010
Special Drawing Rights	23 269	23 671
Reserve position in the IMF		
Capital contribution (quota)	25 302	24 791
IMF krona account	-18 362	-19 643
PRG-HIPC lending	196	192
NAB, New Arrangement to Borrow	4 889	-
Bilateral loans	-	2 164
Total	35 294	31 175

The Riksbank's holding of Special Drawing Rights (SDR) amounts to SDR 2 203 million (2 287). An amount corresponding to the total SDR allocated by the International Monetary Fund (IMF) is reported as a liability. See Note 21.

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

The item 'PRG-HIPC lending' 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 is to be repaid by 1 January 2019.

On 25 March 2011 the Riksbank's bilateral loan with the IMF was transferred to the ordinary credit facility NAB (New Arrangement to Borrow). At the close of 2011 Sweden's total NAB lending was SDR 463 million. The bilateral loan amounted to SDR 209 million at the close of 2010.

At the end of 2011 the Riksbank also had a receivable from the IMF of SDR 12.7 million (12.7) for funds that the IMF may use for interest and credit losses due to delays. The IMF has made deductions from interest payments on the Riksbank's reserve position in the IMF to transfer the funds. The Riksbank has booked these deductions in the profit and loss account. Consequently they are not included as receivables from the IMF on the Riksbank's balance sheet.

Note 3 Balances with banks and security investments

	31.12.2011	31.12.2010
Bank accounts	3 862	156
Bank lending	1 972	1 938
Bonds	259 058	246 090
Short-term securities	-	3 196
Total	264 892	251 380

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

	31.12.2011	31.12.2010
Euro	96 653	103 574
US dollars	132 652	112 459
Pounds sterling	16 257	17 388
Australian dollars	9 992	9 150
Canadian dollars	9 335	8 808
Norwegian kroner	3	1
Japanese yen	0	0
Total	264 892	251 380

The distribution of balances with banks and security investments is shown below.

Maturity	Balances with banks	Security investments
Up to 1 month	4 051	-
Over 1 month, up to 3 months	1 783	-
Over 3 months, up to 1 year	-	66 875
Over 1 year, up to 5 years	-	148 396
More than 5 years	-	43 787
Total	5 834	259 058

As part of its management of the foreign currency reserve, the Riksbank participated in automatic securities lending programmes with a number of banks, where these banks acted on behalf of the Riksbank to lend the Riksbank's securities in exchange for other securities or cash. This lending ceased in 2011.

Note 4 Main operations

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

Note 5 Fine-tuning operations

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

Note 6 Structural operations

This item is used to report the Riksbank's lending in Swedish kronor to monetary policy counterparties, usually with a longer maturity than main refinancing and fine-tuning operations. The purpose of this lending is either to satisfy the longer-term financing needs of the financial sector or to affect the Riksbank's structural position in relation to the financial sector. These operations are not intended to send monetary policy signals. Alternatively this lending can be at a fixed rate and with up to twelve months maturity, for the purpose of sending monetary policy signals that aim to contribute to lower interest rates on loans to companies and households. Structural lending ceased entirely on 12 January 2011 when the last loan of SEK 500 million matured.

The item 'Land and buildings' includes two properties; the head office in Stockholm and the future cash handling office in the municipality of Sigtuna. The head office is classified as a special unit and is consequently not taxable. Tax liability applies to the land in Sigtuna. Construction started in 2011, and from 2012 onwards the property in Sigtuna is classified as a special unit.

Acquisitions in 2011 include building and construction design for the new cash handling office for SEK 132 million (22) and IT applications for SEK 19 million (11).

The item 'Book value, machinery and equipment' includes intangible fixed assets in the form of application systems in an amount of SEK 81 million (81).

Note 7 Marginal lending facility

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

Note 8 Tangible and intangible fixed assets

31.12.2011 31.12.2010

Land and buildings		
Cost of acquisition, 1 January	390	375
Acquisitions during the year	124	15
Divestments during the year	–	–
Cost of acquisition, 31 December	514	390
Acc. depreciation, 1 January	–152	–143
Depreciation for the year	–9	–9
Divestments during the year	–	–
Acc. depreciation, 31 December	–161	–152
Book value	353	238

Machinery and equipment

Cost of acquisition, 1 January	534	517
Acquisitions during the year	41	31
Divestments during the year	–26	–14
Cost of acquisition, 31 December	549	534
Acc. depreciation, 1 January	–383	–343
Depreciation for the year	–42	–54
Divestments during the year	26	14
Write-down for the year	–1	–
Acc. depreciation, 31 December	–400	–383
Book value	149	151

Total book value

Buildings	–	–
Land	1	1

Note 9 Financial assets

Shares and participations	31.12.2011	31.12.2010
Bank for International Settlements	441	441
17 244 shares at a par value of SDR 5 000 of which 25 % are paid up		
European Central Bank	79	79
Value of participation EUR 9 112 389.47		
SWIFT	1	1
10 shares with a par value of EUR 125 each		
Total	521	521

Central banks in the European Central Bank System (ECBS) that are not part of the euro system are obliged to pay in 3.75 per cent of their capital subscription in the ECB. The Riksbank's capital subscription amounts to 2.2582 per cent and the ECB's total subscribed capital amounts to EUR 10 760 652 402.58. The capital subscription is based on the respective country's GDP and number of inhabitants and is calculated every fifth year. The subscription paid is to cover some administration costs of participation in the ECBS.

Note 10 Derivative instruments

	31.12.2011	31.12.2010
FX swaps, positive value	–	584
FX swaps, negative value	–	–
Total	–	584

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

The nominal amounts of the derivative contracts are shown below.

	31.12.2011	31.12.2010
FX swaps, positive value	–	16 945
FX swaps, negative value	–	–
Total	–	16 945

Note 11 Prepaid expenses and accrued income

	31.12.2011	31.12.2010
Receivables from the IMF	10	18
Bank accounts and bank lending	0	0
Bonds	2 775	3 436
Derivative instruments	53	55
Structural operations	–	4
Övrigt	35	9
Total	2 873	3 522

Note 12 Other assets

	31.12.2011	31.12.2010
Staff loans	289	278
Accounts receivable	2	2
The claim on Crane & Co. Inc.	–	22
VAT recoverable	33	6
Balances with banks	2	10
Other	1	0
Total	327	318

On 14 December 2011 the remaining part of the payment for the sale of Crane AB was settled at USD 3 million.

Note 13 Banknotes

Value of banknotes in circulation, by denomination:

	31.12.2011	31.12.2010
1 000 krona	25 090	28 565
500 krona	56 833	58 113
100 krona	9 187	9 414
50 krona	1 233	1 244
20 krona	1 730	1 738
Commemorative banknotes	2	2
Invalid banknotes after 2005	696	826
Total	94 771	99 902

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

Note 14 Coins

Value of coins in circulation, by denomination:

	31.12.2011	31.12.2010
10 krona	2 550	2 543
5 krona	1 313	1 304
2 krona	8	8
1 krona	1 354	1 340
50 öre	166	166
Commemorative coins	140	138
Total	5 365	5 499

The item '50 öre' that refers to 50 öre coins in circulation was written off on 30 June 2011 by SEK 142 million as of that day the 50 öre coin could no longer be redeemed by the banks from the Riksbank.

Note 15 Deposit facility

Overnight deposits from the banks in their 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. These deposits are usually made overnight.

Note 17 Debt certificates issued

This item is used to report the Riksbank's issuance of debt certificates aimed at absorbing liquidity from the financial system. These deposits are made at the Riksbank's most important policy rate, the repo rate, as a rule with a maturity of one week.

Note 18 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 19 Liabilities to residents in Sweden denominated in foreign currency

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

	31.12.2011	31.12.2010
Euro	27 586	30 905
US dollars	58 911	52 869
Total	86 497	83 774

Note 20 Liabilities to residents outside Sweden denominated in foreign currency

Amounts corresponding to purchase amounts in foreign currency for deposit repos are recorded under this item.

The distribution of foreign currency deposits is shown in the following table.

	31.12.2011	31.12.2010
Australian dollars	–	431
Total	–	431

Note 21 Counterpart of Special Drawing Rights allocated by the IMF

The Riksbank's liability corresponding to the Special Drawing Rights (SDR) originally allocated by the IMF is reported here. The total allocation is SDR 2 249 million (2 249). The current holding is SDR 2 203 million (2 287) and is reported under the item 'Receivables from the IMF'. See Note 2.

Note 22 Derivative instruments

	31.12.2011	31.12.2010
FX swaps, negative value	943	–
Total	943	–

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

The nominal amounts of the derivative contracts are shown in the table below.

	31.12.2011	31.12.2010
FX swaps, negative value	19 620	–
Total	19 620	–

Note 23 Accrued expenses and prepaid income

	31.12.2011	31.12.2010
Fine-tuning operations	1	0
Debt certificates issued	–	–
Deposits, Swedish National Debt Office	177	413
Deposit repos	–	0
Counterpart of Special Drawing Rights	7	15
Other	67	60
Total	252	488

Note 24 Other liabilities

	31.12.2011	31.12.2010
Accounts payable – trade	46	26
Other	42	21
Total	88	47

Note 25 Provisions

	31.12.2011	31.12.2010
Pension provision	112	116
Invalid banknotes	48	57
Lease Malmö office	40	44
Job Security Foundation	3	3
Total	203	220

The pension provision has been calculated by the National Government Employee Pensions Board (SPV). SEK 106 million (106) refers to PA 91 pensioners with a date of retirement prior to 2003, and SEK 6 million (10) refers to persons who have been granted a partial pension from 2003 onwards or pension compensation prior to the age of 65. As at 31 December 2002 the Riksbank redeemed its pension provision for those persons who on that date were employed by or were entitled to annuity from the Riksbank.

The item 'Provisions' also includes SEK 48 million (57) for the estimated future costs of banknotes that ceased to be legal tender but that the Riksbank still may redeem.

In addition the item includes SEK 40 million (44) for estimated future lease costs for the office in Malmö that was wound up in 2006. On 29 December 2010 the Riksbank entered into an agreement to terminate the tenancy agreement in 2011. The agreement was made with a company that intended to acquire the property that the Riksbank rents. The agreement was not completed because the property was sold to another company.

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

Note 26 Revaluation accounts

	31.12.2011	31.12.2010
Price effect	10 317	4 738
Exchange rate effect	6 328	3 624
Gold value effect	31 711	26 740
Total	48 356	35 102

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

The price effect consists mainly of unrealised securities gains.

Exchange rate effects are shown in the following table.

	31.12.2011	31.12.2010
Euro	–	–
US dollars	2 068	–
Pounds sterling	283	–
Australian dollars	2 022	1 800
Canadian dollars	1 021	1 040
Special Drawing Rights	293	46
Norwegian kroner	641	738
Total	6 328	3 624

Note 27 Capital

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

Note 28 Reserves

	31.12.2011	31.12.2010
Reserve fund	500	500
Contingency fund	35 058	41 598
Balancing fund	30 219	29 331
Total	65 777	71 429

The Sveriges Riksbank Act states that the Riksbank shall have a reserve fund amounting to SEK 500 million and a contingency fund.

The contingency fund and the balancing fund have been used since 1988, according to guidelines for the allocation of the Riksbank's profit adopted that year. The contingency fund has also been used for entering the amounts of asset write-ups. The Riksbank's gold reserve was written up to market value on 31 December 1998 and fixed assets were capitalised in the balance sheet in 1994 at cost of acquisition less depreciation. In 2011 a reposting was made of SEK 2 million (3) from the sub-item 'Write-up of fixed assets' to 'Allocation of profit', due to the year's divestments and depreciation of the written-up assets. The value of the BIS shares was written up in 1996 to correspond to the market value of the gold used as payment for the share allocation in that year.

The above-mentioned allocations and write-ups are shown in the table below:

	31.12.2011	31.12.2010
Allocation of profit:		
Exchange rate effect	3 766	10 854
Gold value effect	7 356	7 356
Other allocation of profit	14 995	14 445
Write-up of assets:		
Gold reserve	8 604	8 604
Fixed assets	102	104
BIS shares	235	235
Total	35 058	41 598

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

	Capital	Reserves	Profit for the year
Balance, 31 December 2009	1 000	63 025	14 204
Transfer to the Treasury	–	–	–5 800
Transfer to/from:			
Balancing fund	–	3 286	–3 286
Contingency fund	–	5 118	–5 118
Profit for the year	–	–	548
Balance, 31 December 2011	1 000	71 429	548
Transfer to the Treasury	–	–	6 200
Transfer to/from:			
Balancing fund	–	–6 540	6 540
Contingency fund	–	888	–888
Profit for the year	–	–	3 930
Balance, 31 December 2011	1 000	65 777	3 930

Note 29 Interest income

	2011	2010
From foreign assets:		
SDR	90	72
Reserve position in the IMF	21	12
NAB, New Arrangement to Borrow	9	–
Bilateral loans	2	3
Bank accounts	2	32
Bank lending	14	45
Bonds	4 842	6 139
Short-term securities	53	34
Derivative instruments	377	309
Securities lending programmes	78	47
Total	5 488	6 693
From domestic assets:		
Structural operations	0	1 020
Marginal lending facility	0	0
Other lending	0	–
Staff loans	5	4
Total	5	1 024
Total	5 493	7 717

Note 30 Interest expense

	2011	2010
From foreign liabilities:		
Deposits, Swedish National Debt Office	-953	-1 286
Deposit repos	-2	-86
Counterpart of Special Drawing Rights	-90	-71
Derivative instruments	-3	-1
	-1 048	-1 444
From domestic liabilities:		
Deposit facility	-	-
Fine-tuning operations	-271	-187
Debt certificates issued	-	-493
Bank accounts	0	-
Cash depots	-40	-11
	-311	-691
Total	-1 359	-2 135

Note 31 Net result of financial transactions

	2011	2010
Price effect	1 056	1 965
Exchange rate effect	-847	-7 088
Gold value effect	-	-
Total	209	-5 123

The price effect consists of realised gains and losses on securities of SEK

1 221 million (2 540) and unrealised losses on securities of SEK -165 million (-575), which have been transferred to profit and loss due to write-down of the securities holding.

The exchange rate effect includes realised exchange rate gains and losses of SEK -87 million (593) and unrealised exchange rate losses of SEK -760 million that were recognised in the profit for the year due to write-down of the foreign currency holding (-7 681).

Note 32 Fees and commissions income

The item includes annual and transaction charges for the RIX system of SEK 70 million (67).

Note 33 Fees and commissions expense

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

Note 34 Dividends received

In 2011 the Riksbank received dividend from the BIS of SEK 51 million (134). The decrease compared with the previous year is explained by the Riksbank receiving an extra dividend of SEK 78 million from BIS in 2010.

Note 35 Other income

	2011	2010
Unredeemed cash received	3	3
Reimbursement for discoloured banknotes etc.	3	4
Coins written off	142	536
Coins sold for scrap	16	-
Sida (Swedish International Development Cooperation Agency)	1	1
Investment accounts	2	-
Repayment SPV	-	58
Other	1	1
Total	168	603

The item 'Coins written off' in 2011 refers to a write-off of 50 öre coins in circulation which the Riksbank ceased to redeem on 30 June 2011. In 2010 the same item referred to a write-off of commemorative coins in circulation in issues older than ten years.

'Coins sold for scrap' refers to sales of the 50 öre coins handed in to the Riksbank.

The income from Sida refers to remuneration for technical assistance to other central banks in some developing countries.

In 2011 the Riksbank wrote off the liability corresponding to the remaining investment accounts as it had become statute-barred.

The item 'Repayment SPV' refers to a repayment from the National Government Employee Pensions Board made on final settlement of the single premium paid by the Riksbank for redemption of its pension obligation for the individuals who on 31 December 2002 were either employed or had the right to an annuity. The final pension obligation that was established in October 2010 was SEK 58 million lower than the preliminary premium paid in 2003.

Note 36 Staff costs

	2011	2010
Salaries and benefits	-214	-211
Salary recorded as assets	2	3
Social security contributions	-67	-68
	-279	-276
Pension premiums	-49	-40
Pension payments	-17	-20
Change in pension provision	4	21
Special payroll tax	-15	-14
	-77	-53
Training	-4	-6
Staff representation	-3	-3
Other	-9	-7
	-16	-16
Total	-372	-345

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

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

Salaries and benefits to the members of the Executive Board in 2011 amounted to SEK 17.0 million, broken down as follows.

	2011	2010
Stefan Ingves	1.9	1.8
Svante Öberg	2.2	2.2
Karolina Ekholtm	2.1	2.0
Lars Nyberg	2.1	2.1
Lars E.O. Svensson	2.1	1.8
Barbro Wickman-Parak	2.1	2.0
Qualification period salaries	4.5	—
Total	17.0	11.9

In addition, the Governor of the Riksbank received a board fee in 2011 of SEK 0.7 million (0.7) from the Bank for International Settlements (BIS). In accordance with a decision of the General Council a deduction is made from the gross salary of the Governor of the Riksbank corresponding to the amount of his board fee from BIS.

The item 'Qualification period salaries' refers to Lars Nyberg, SEK 2.2 million and Svante Öberg, SEK 2.3 million. The General Council has decided that during the statutory qualification period of a maximum of one year after the end of employment, members of the Executive Board shall receive a full salary without being required to perform any duties. However, deduction will be made for any income from other employment during this period.

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

The Ordinance on Pensions for Senior Government Officials (1995:1038) was superseded on 1 April 2003 by the Ordinance on Severance Benefits for Certain Employees employed as Senior Government Officials (2003:55). Under this ordinance the new provisions are to be applied from 1 January 2003.

The provisions of the Ordinance on Pensions for Senior Government Officials are, however, still applicable to any person who on 31 December 2002 held a senior position as defined in the ordinance, if that person continues employment without interruption. Furthermore, the provisions in the earlier superseded Ordinance on Appointment Pensions, etc. still apply to those previously covered by these provisions.

This implies the following: For Svante Öberg the older Ordinance on Appointment Pensions (1991:1160) applies. For Lars Nyberg the older Ordinance on Pensions for Senior Government Officials (1995:1038) is applicable. For Karolina Ekholtm, Barbro Wickman-Parak, Lars E.O. Svensson, Per Jansson and Kerstin af Jochnick the Ordinance on Severance Benefits for Certain Employees Employed as Senior Government Officials (2003:55) is applicable. For Stefan Ingves the same ordinance is applicable with the exception of the reduction of the income guarantee for pension from the IMF.

Furthermore, under present arrangements, Stefan Ingves may also receive a pension from the BIS. This is paid to board members who have served on the board of the BIS for at least four years, but only when they have reached the age of 65. The pension is calculated on the basis of the board fees paid, amounting to 1.82 per cent of these fees.

The average number of employees (full-time equivalents, FTEs) in 2011 was 340 (350), of which 143 (150) were women and 197 (200) men. The number of FTEs at the end of the year was 332 (339). Total sick leave in 2011 was 1.2 per cent (1.7) of employees' total working hours. Sick leave over a continuous period of 60 days or more in 2011 was 22.6 per cent (28.4) of total sick leave. Women's sick leave in relation to total regular working hours for women amounted in 2011 to 1.7 per cent (2.4), while the corresponding figure for men in 2011 was 0.9 per cent (1.1).

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

	2011	2010
29 years or younger	0.6 %	1.2 %
30–49 years	1.2 %	1.2 %
50 years or older	1.3 %	2.5 %

Note 37 Administrative expenses

	2011	2010
Information, hospitality	-10	-9
Transport, travel	-14	-12
Consultancy assignments	-46	-37
Other external services	-73	-62
IT operation	-51	-56
Economics prize	-16	-16
Office and property maintenance	-44	-42
Other	-7	-6
Total	-261	-240

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

Costs for hospitality amounted to SEK 2.9 million (2.7).

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

Consultancy assignments amounted to SEK 46 million (37). This includes items such as IT consultants for SEK 30 million (23), including SEK 7 million (3) for consulting support for replacement of integration platform, SEK 0 million (2) for the RIX payment system and SEK 1 million (2) for the cash handling system.

The cost of statistics deliveries of SEK 47 million (45) is the largest single item in 'Other external services'. It refers mainly to remuneration to Statistics Sweden for production of balance of payments statistics and financial market statistics. In addition there are audit fees to the Swedish National Audit Office and the General Council's auditors of SEK 1 million (1).

The 'IT operations' item includes licensing expenses of SEK 38 million (45).

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

The largest single items in the cost group 'Office and property maintenance' consist of refurbishment and maintenance of the Riksbank's premises, SEK 8 million (9), and rent of premises, SEK 14 million (13).

Note 38 Depreciation of tangible and intangible fixed assets

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

Note 39 Banknote and coin expenses

Of the total cost for banknotes and coins of SEK 10 million (56), SEK 9 million (36) refers to the purchase of circulation banknotes, SEK 0 million (2) to the purchase of circulation coins and SEK 1 million (18) to the purchase of commemorative coins

Note 40 Other expenses

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

Note 41 Memorandum items*Pledged assets*

At the close of 2011 no securities were pledged in connection with foreign securities repos (SEK 426 million).

Contingent liabilities

Outstanding claims for compensation amounted to SEK 3 million (3) at the close of 2011.

Commitment to provide the Nobel Foundation with funds annually for the award of a prize in economic sciences in memory of Alfred Nobel and also administration expenses for this prize. This commitment amounted to SEK 16.5 million in 2011 (16.5).

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

Contingent assets

At the end of 2011 the Riksbank had no outstanding compensation claims (-).

Lending and exchange commitments with the IMF

	31.12.2011	31.12.2010
Special Drawing Rights	47 994	46 154
Reserve position	18 362	19 643
GAB, NAB, bilateral loan	42 004	20 092
Total	108 360	85 889

The table above shows the Riksbank's remaining lending and exchange commitments with the IMF in addition to what is reported on the balance sheet. See Note 2.

Under the IMF by-laws the commitment referring to Special Drawing Rights means that the Riksbank is obliged to buy Special Drawing Rights (SDR) equivalent to three times the Riksbank's total net allocation of SDR. This commitment also includes the Riksbank's standing arrangement to buy SDR within an interval of 50 to 150 per cent of the Riksbank's total net allocation of SDR.

The commitment concerning the reserve position means that the Riksbank is obliged to exchange the balance in the IMF's krona account to foreign currency.

The commitment concerning GAB (General Arrangements to Borrow) and NAB (New Arrangements to Borrow) to provide the IMF with a credit facility means that the Riksbank is obliged to lend to the IMF an amount of up to SDR 4 440 million (850), which is equivalent to SEK 46 893 million (8 797). On 20 January 2011 the Riksdag decided, after a submission from the Riksbank, to allow the Riksbank to increase its commitments under GAB and NAB to a maximum of SDR 4 440 million.

The commitment referring to the bilateral loan agreement with the IMF means the Riksbank is obliged to lend a SDR amount equivalent to a total of EUR 2 470 million, equivalent to SEK 22 018 million. This lending assumes that it falls within the framework of GAB and NAB lending for 2011. For 2010 the GAB and NAB lending assumed that it fell within the framework of the maximum bilateral lending amount.

Sweden's capital contribution (quota) to the IMF at present is SDR 2 395.5 million. The Riksdag has authorised the Government to increase Sweden's quota to the IMF so that it amounts to a maximum total of SDR 4 430 million. The Riksdag has further authorised the Riksbank to pay the necessary quota amount to the IMF. The IMF has as yet not made a final decision on the quota increase. The IMF's proposed quota increase is based on the equivalent reduction of Sweden's commitment in the IMF's new arrangements to borrow (NAB), which means that Sweden's total commitment to the IMF in principle will not be extended as a result of the quota increase.

Apart from the above, on 15 December 2011 the Riksbank decided to promote a Riksdag decision that will give the Riksbank the right to sign a bilateral agreement to lend up to SEK 100 000 million to the IMF.

Payment agreements

Commitment to pay the BIS, three months after any demand, the remaining 75 per cent of the nominal amount of the Riksbank's shareholding in the BIS. This commitment corresponded to SDR 65 million (65), equivalent to SEK 687 million (673), at the end of 2011.

Deposit agreements

Agreement with the BIS, implying that the Riksbank has the opportunity to borrow foreign currency. Agreement with the ECB, implying that the Riksbank has the opportunity to borrow euros in exchange for Swedish kronor. No amount is specified in the agreement with the ECB.

The profit and loss account and balance sheet by function

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

The allocation model is based on the format of the profit and loss account and the balance sheet, where the Riksbank's administrative expenses for 2011 amount to SEK 694 million (704) and assets and liabilities to SEK 347 917 million (326 926).

Allocation of costs

Staff costs, excluding IT personnel

The actual payroll expense has been used when allocating staff costs for employees directly involved in a function. The payroll expenses for employees in support functions have been allocated using a cost allocation key. The most common key is the number of directly involved employees in relation to the total number of directly involved employees in all functions. Altogether about 196 employees, or 59 per cent of the total of 332, are directly involved in one of the functions. The other 136 employees are in support functions, mainly IT, transport and security surveillance, property maintenance and internal services.

Administrative expenses, excluding IT expenses

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

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

Depreciation, excluding IT-related investments

Depreciation is directly allocated to the function which is supported by the respective facility or allocated on the basis of the number of directly involved employees per function in relation to the total number of directly involved employees.

Banknote and coin expenses

Costs for purchasing banknotes and coins amounted to SEK 10 million (56) in 2011. The costs are allocated in their entirety to the Cash handling function.

IT expenses

The model for allocation of IT expenses is based on four IT services: telephony, PC services, licences and IT systems. Telephony and PC services are allocated to users with commonly agreed prices for telephones, mobile telephones and PCs. The large activity licences, in particular financial information services, are allocated to the respective licensee at the actual price. IT system costs are allocated based on the number of logical servers per system.

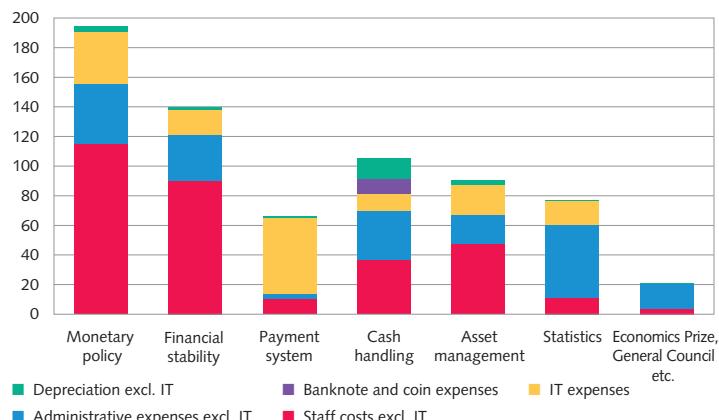
The table below shows the Riksbank's net income and expenses by function.

Breakdown of net income and expenses

Function	2011			2010			
	SEK million	Net income	Expenses	Profit/loss	Net income	Expenses	Profit/loss
Monetary policy	2	2	-194	-192	2	-175	-173
Financial stability	54	54	-140	-86	137	-124	13
Payment system	70	70	-66	4	67	-68	-1
Cash handling	125	125	-106	19	532	-144	388
Asset management	4 370	4 370	-91	4 279	454	-86	368
Statistics	-	-	-77	-77	-	-81	-81
Economics prize and General Council etc.	3	3	-20	-17	60	-26	34
Total	4 624	4 624	-694	3 930	1 252	-704	548

Chart 23

Allocation by nature of expense per function, 2011, SEK million



Source: The Riksbank.

Asset management profit/loss etc.

SEK million	2011	2010
Interest income	5 488	7 713
Interest expense	-1 319	-2 125
Net result of financial transactions reported in the profit and loss account	209	-5 123
Net result of financial transactions reported in revaluation accounts in the balance sheet	13 254	-2 176
Fee and commission expense	-8	-11
Asset management profit/loss	17 624	-2 262
Net interest earnings on administration	-35	-6
Income from administration	289	804
Cost of administration	-694	-704
Profit/loss including income recognised in the balance sheet	17 184	-2 168
Reversal of income recognised in the balance sheet	-13 254	2 716
Reported profit for the year	3 930	548

Allocation of assets and liabilities

Function	31.12.2011		31.12.2010	
	Assets	Liabilities	Assets	Liabilities
Financial stability	441	-	441	-
Cash handling	-	100 136	-	105 401
Asset management	346 532	128 210	325 689	113 005
Unallocated	944	119 571	796	108 520
Total	347 917	347 917	326 926	326 926

The Riksbank's extraordinary measures

SEK million	Net interest income		Loan amount	
	2011	2010	31.12.2011	31.12.2010
Lending in Swedish kronor to Swedish banks				
Structural operations	-	1 020	-	500
Fine-tuning operations	-	-187	-	-5 097
Debt certificates issued	-	-493	-	-
	-	340	-	-4 597
Strengthening of foreign currency reserve				
Bank balances and securities ¹	716	995	84 886	84 089
Liabilities to residents in Sweden denominated in foreign currency ²	-953	-1 286	-86 497	-83 774
Liabilities to residents outside Sweden denominated in Swedish kronor	-	-50	-	-
Accrued interest	-	-	-177	-413
	-237	-341	-1 788	-98

¹ Contingency portfolio (market value).² Swedish National Debt Office.**Allocation of net income**

Allocation of net income by function has been done from an operational perspective. Income has been allocated to the function with the greatest potential to influence and manage it. Consequently, the fact that seigniorage derives from cash handling has not been taken into consideration. Instead seigniorage income has been allocated to asset management. Seigniorage for 2011 amounted to SEK 2 284 million (3 495).

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

The total return from the Riksbank's asset management in 2011 of SEK

17 624 million (-2 262) consists of net income from asset management of SEK 4 370 million (454), adjusted for price, exchange rate and gold value effects of SEK 13 254 million (-2 716) recognised in the balance sheet, corresponding to the year's change in the revaluation account (see Note 26). See also the table "Asset management profit/loss etc." and Table 6 in the "Asset management" section of the Administration Report.

Net interest earnings on administration in the table above consists of interest income from the Riksbank's staff loans of SEK 5 million (4) and interest expenses for interest compensation to cash depots of SEK 40 million (10).

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

Allocation of assets and liabilities

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

The assets in the Financial stability function consist of the shareholding in the BIS. The unallocated assets mainly contain tangible and intangible fixed assets and other assets. The unallocated liabilities mainly contain equity, revaluation account and profit for the year.

The Riksbank's extraordinary measures

As a result of the 2008–2009 financial crisis the Riksbank took a number of extraordinary measures. The net interest income and outstanding loan amounts for these measures are shown in the table "The Riksbank's extraordinary measures". The extraordinary lending in Swedish kronor to Swedish banks was discontinued on 12 January 2011.

■ Five-year overview

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

No restatement has been necessary for the last four years.

Balance sheet		31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
SEK million						
ASSETS						
Gold		43 508	38 537	31 691	29 976	25 827
Claims on residents outside Sweden denominated in foreign currency		300 186	282 555	302 348	200 448	172 556
Receivables from the IMF		35 294	31 175	30 898	6 261	4 614
Balances with banks and security investments		264 892	251 380	271 450	194 187	167 942
Claims on residents in Sweden denominated in foreign currency		–	–	–	196 124	–
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		0	500	368 802	266 462	9 129
Main operations		–	–	–	–	7 199
Fine-tuning operations		–	–	–	–	1 787
Structural operations		–	500	368 801	264 800	–
Marginal lending facility		0	0	1	0	143
Other lending		–	–	–	1 662	–
Other assets		4 223	5 334	5 997	7 201	4 414
Tangible and intangible fixed assets		502	389	406	421	452
Financial assets		521	521	521	524	524
Derivative instruments		–	584	136	8	497
Prepaid expenses and accrued income		2 873	3 522	4 608	5 931	2 612
Other assets		327	318	326	317	329
Total assets		347 917	326 926	708 838	700 211	211 926

Balance sheet

SEK million	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
LIABILITIES AND EQUITY					
Banknotes and coins in circulation	100 136	105 401	110 663	112 273	114 324
Banknotes	94 771	99 902	104 590	106 266	108 517
Coins	5 365	5 499	6 073	6 007	5 807
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	16 875	5 142	171 163	206 696	143
Deposit facility	44	45	56	32	143
Fine-tuning operations	16 831	5 097	171 107	206 664	–
Debt certificates issued	–	–	192 222	48 946	–
Liabilities to residents in Sweden denominated in Swedish kronor	–	–	–	104	–
Liabilities to residents outside Sweden denominated in Swedish kronor	106	69	70	189 248	82
Liabilities to residents in Sweden denominated in foreign currency	86 497	83 774	92 544	1 862	–
Liabilities to residents outside Sweden denominated in foreign currency	–	431	–	8 688	12 047
Counterpart of SDRs allocated by the IMF	23 754	23 275	25 216	2 979	2 517
Other liabilities	1 283	535	662	9 998	184
Derivative instruments	943	–	3	9 254	17
Accrued expenses and prepaid income	252	488	606	697	114
Other liabilities	88	47	53	47	53
Provisions	203	220	251	264	206
Revaluation accounts	48 356	35 102	37 818	49 228	20 081
Equity	66 777	72 429	64 025	58 742	58 247
Capital	1 000	1 000	1 000	1 000	1 000
Reserves	65 777	71 429	63 025	57 742	57 247
Profit for the year	3 930	548	14 204	11 183	4 095
Total liabilities and equity	347 917	326 926	708 838	700 211	211 926

Profit and loss account

SEK million	2011	2010	2009	2008	2007
Interest income	5 493	7 717	10 997	10 610	7 566
Interest expense	–1 359	–2 135	–2 796	–2 600	–1 089
Net result of financial transactions	209	–5 123	6 714	3 051	–1 722
Fees and commissions income	70	67	58	43	43
Fees and commissions expense	–8	–11	–43	–8	–10
Dividends received	51	134	55	45	131
Other income	168	603	16	824	33
Total net income	4 624	1 252	15 001	11 965	4 952
Staff costs	–372	–345	–342	–337	–329
Administrative expenses	–261	–240	–267	–264	–237
Depreciation of tangible and intangible fixed assets	–51	–63	–71	–68	–76
Banknote and coin expenses	–10	–56	–117	–113	–154
Other expenses	–	–	–	–	–61
Total expenses	–694	–704	–797	–782	–857
Profit for the year	3 930	548	14 204	11 183	4 095

■ Internal controls

The Executive Board is responsible for the Riksbank's activities and shall ensure that they are conducted efficiently and in accordance with the applicable laws, that they are reported in a reliable and fair manner and that the Riksbank is economical with public finances. This is stated in Chapter 9, Article 1 of the Sveriges Riksbank Act. The Executive Board shall ensure that the requirements are met with reasonable certainty by ensuring that the Riksbank has a process for internal controls that includes risk analysis, control measures, follow-up and documentation. The Executive Board shall present in the Annual Report an assessment of whether the internal controls are considered satisfactory. This is stated in Chapter 10, Article 3 of the Sveriges Riksbank Act

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

The Executive Board has evaluated the internal controls during 2011 against the requirements in the Sveriges Riksbank Act and its conclusion is that the internal controls are satisfactory.

Stockholm, 9 February 2012



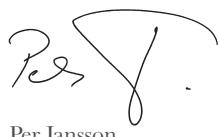
Stefan Ingves
Governor



Kerstin af Jochnick
First Deputy Governor



Karolina Ekholm
Deputy Governor



Per Jansson
Deputy Governor



Lars E.O. Svensson
Deputy Governor



Barbro Wickman-Parak
Deputy Governor

Audit Report for Sveriges Riksbank

Translation from Swedish.

Report on the annual report

The Swedish National Audit Office has audited the annual report for Sveriges Riksbank for 2011, dated 9 February 2012.

Responsibility of the Executive Board for the annual report

The Executive Board is responsible for preparing an annual report that gives a true and fair view in accordance with the Sveriges Riksbank Act (1988:1385) and in accordance with the rules for bookkeeping and annual accounts adopted by the Executive Board. The Executive Board is also responsible for the internal controls they deem necessary to prepare an annual report that is free from material misstatement, whether due to fraud or error.

Responsibility of the auditor

The responsibility of the Swedish National Audit Office is to express an opinion on the annual report based on its audit. The Swedish National Audit Office conducted its audit in accordance with the International Standards of Supreme Audit Institutions. This standard requires that the Swedish National Audit Office complies with professional ethical requirements and plans and performs the audit to obtain reasonable assurance whether the annual report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and other disclosures in the annual report and about whether the Executive Board has complied with applicable rules and regulations. The auditor selects the procedures to be performed, including the assessment of the risks of material misstatement in the annual report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Riksbank's preparation and fair presentation of the annual report. The purpose is to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Riksbank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Executive Board, as well as evaluating the overall presentation of the annual report.

The Swedish National Audit Office believes that the audit evidence it has obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In the opinion of the Swedish National Audit Office, the annual report in all material respects gives a true and fair view of the financial position of the Riksbank as at 31 December 2011, and of the results and

funding of its operations for the year in accordance with the Sveriges Riksbank Act (SFS 1988:1385) and in accordance with the rules for bookkeeping and annual accounts adopted by the Executive Board.

The Swedish National Audit Office recommends to the Riksdag to adopt the balance sheet and the profit and loss account.

Report on other requirements in accordance with laws and other statutes

In addition to the annual report, the Swedish National Audit Office shall also express an opinion on the administration of the General Council and the Executive Board of Sveriges Riksbank for 2011.

Responsibility of the General Council and the Executive Board and of the auditor

The General Council and the Executive Board are responsible for the administration under the Sveriges Riksbank Act (1988:1385).

The responsibility of the Swedish National Audit Office is to express an opinion with reasonable assurance based on its audit. The Swedish National Audit Office conducted its audit in accordance with generally-accepted auditing standards in Sweden.

As a basis for the Swedish National Audit Office's opinion concerning discharge from liability, the Swedish National Audit Office has examined significant decisions, actions taken and circumstances of the Riksbank to be able to determine the liability, if any, to the Riksbank of any member of the General Council or Executive Board. The Swedish National Audit Office has also examined whether any member of the General Council or the Executive Board has in any other way acted in contravention of the Sveriges Riksbank Act (1988:1385).

The Swedish National Audit Office believes that the audit evidence it has obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

The Swedish National Audit Office recommends to the Riksdag that the General Council of the Riksbank be discharged from liability for its activities and that the Executive Board be discharged from liability for its administration of the Riksbank in 2011.

The auditor in charge, Staffan Nyström, made the decision on this matter. Audit manager Anders Herjevik presented the audit report.

Stockholm, 15 February 2012

Staffan Nyström

Anders Herjevik

■ Consultation work of the Riksbank

Every year, the Riksbank responds to a large number of consultation documents. The heads of department are responsible for handling consultation requests within the department's area of responsibility. The responsibility of the head of department includes providing background information for assessing whether a consultation response should be decided by the Executive Board or the head of department. If the response is to be decided by the Executive Board, this responsibility also includes presenting a draft consultation response to the Executive Board. Responsibility for overall coordination and administration of consultation work lies with the General Secretariat.

In 2011, the Riksbank submitted consultation responses on, for example, proposed measures to strengthen stability in the financial system and supervision in the financial area. The Riksbank also dealt with proposals concerning Finansinspektionen's regulations and public preparedness and protection in times of crisis. The Executive Board submitted comments on the Swedish Long-Term Survey 2011, a stability mechanism for euro area countries and regulations for a higher level of crisis preparedness in the financial sector. The Executive Board and the General Council also each submitted comments within their respective areas of responsibility on the Riksdag Committee on Finance's external evaluation of the Riksbank's monetary policy and work with financial stability, carried out by Charles Goodhart and Jean-Charles Rochet.

The Riksbank submitted the following consultation responses in 2011. Unless otherwise stated, decisions were taken by the head of the department concerned.

Riksdag Administration

30.11.2011 Evaluation of the Riksbank's monetary policy and work with financial stability 2005–2010. A decision on this consultation response was taken by the Riksbank's Executive Board.

30.11.2011 Evaluation of the Riksbank's monetary policy and work with financial stability 2005–2010. A decision on this consultation response was taken by the General Council of the Riksbank.

10.11.2011 Report of the Swedish National Audit Office: Measures taken by the authorities to safeguard financial stability (RiR 2011:9)

Ministry of Finance

21.12.2011 Green Paper on the feasibility of introducing Stability Bonds (COM(2011) 818)

15.12.2011 European Commission Proposal (COM(2011) 652) for a Regulation of the European Parliament and of the Council on markets in financial instruments and Proposal (COM(2011) 656) for a Directive of the European Parliament and of the Council on markets in financial instruments

9.12.2011 European Commission Proposal (COM(2011) 594) for a Council Directive on a common system of financial transaction tax and amending Directive 2008/7/EC. A decision on this consultation response was taken by the Executive Board of the Riksbank.

30.11.2011 European cooperation on financial market supervision

14.10.2011 Proposed guidelines for the management of central government debt 2012–2014

7.6.2011 Regulations for a higher level of crisis preparedness – sharing of opinions

30.5.2011 Report: Swedish Long-Term Survey 2011 (SOU 2011:11). A decision on this consultation response was taken by the Executive Board of the Riksbank.

15.4.2011 Confidentiality for financial companies (Ds 2011:7)

6.4.2011 Amended supervision of credit rating agencies

- 4.4.2011** Regulations for a higher level of crisis preparedness against serious technical errors and disruptions in the central payment system. A decision on this consultation response was taken by the Executive Board of the Riksbank.
- 28.2.2011** Amended capital adequacy rules – further consultation document
- 4.2.2011** Extract from draft proposal to the Council on Legislation: Modernised regulations for settlement systems and financial collateral (further consultation document)
- 24.1.2011** Memorandum on Standard-taxed investment savings accounts and more modern taxation of endowment insurance
- 24.1.2011** Taxation consequences of cross-border fund operations
- 21.1.2011** Cross-border fund operations – Implementation of the UCITS IV Directive (SOU 2010:78)
- 21.1.2011** Amendments to the terms of reference of the Review of Statistics Sweden and the statistics system
- 20.1.2011** Proposal for a Regulation of the European Parliament and of the Council on the European system of national and regional accounts in the Community
- 20.1.2011** Draft proposal: Legal amendments due to the bankruptcy of the General Mortgage Bank of Sweden (Sveriges allmänna hypoteksbank)
- Finansinspektionen (The Swedish Financial Supervisory Authority)**
- 5.12.2011** Proposed amendments to Finansinspektionen's regulations and general guidelines on capital adequacy and large exposures
- 21.11.2011** New regulations and general guidelines regarding investment guidelines and the risk management of assets and derivative instruments in insurance companies and pension foundations
- 31.8.2011** Proposed amendments to the accounting regulations
- 25.8.2011** Proposed new regulations and general guidelines for institutions for electronic money and registered issuers
- 8.7.2011** Proposed amendments to Finansinspektionen's regulations and general guidelines on capital adequacy and large exposures – own risk calculation models for market risks etc.
- 9.6.2011** Proposed amendments to Finansinspektionen's regulations and general guidelines on capital adequacy and large exposures
- 14.4.2011** Proposed amendments to Finansinspektionen's regulations and general guidelines on capital adequacy and large exposures
- 8.4.2011** Proposed general guidelines on consumer credits
- 21.3.2011** Proposed amended securities regulations
- 4.3.2011** Proposed amended fund regulations
- 24.2.2011** Proposed new regulations on reporting liquidity risk
- 24.1.2011** Proposed new and amended regulations and general guidelines in respect of, inter alia, the introduction of a new insurance business act
- Ministry of Justice**
- 15.8.2011** Commission's proposal for a directive on credit agreements relating to residential property
- 24.2.2011** Report: Joint insolvency proceedings – proposed new act (SOU 2010:2)
- Swedish Civil Contingencies Agency**
- 25.8.2011** Evaluation report, SAMÖ-KKÖ 2011 (Cooperation and Nuclear Emergency Exercise)
- 27.1.2011** Proposed National strategy for protection of critical infrastructure
- Ministry of Industry, Employment and Communications**
- 31.5.2011** Draft regulations on control of electricity to vital public electricity users in the event of disconnection
- Prime Minister's Office**
- 29.9.2011** Department memorandum: Approval of the European Council decision amending Article 136 of the Treaty on the Functioning of the European Union – stability mechanism for Member States whose currency is the euro (Ds 2011:25). A decision on this consultation response was taken by the Executive Board of the Riksbank.
- Ministry for Foreign Affairs**
- 31.5.2011** World-class foreign service, Final report of the Swedish Foreign Service Inquiry (SOU 2011:21) and World-class foreign service, More flexible foreign representation, Interim report from the Swedish Foreign Service Inquiry (SOU 2010:32)

■ Publications

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

Monetary Policy Report

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

Monetary Policy Update

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

Material for assessing monetary policy

Reports annually on the monetary policy conducted by the Riksbank in the immediately preceding years. It contains data and assessments necessary to enable the Riksdag to evaluate monetary policy.

Financial stability

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

The Swedish Financial Market

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

Sveriges Riksbank Economic Review

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

Annual Report

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

Working Paper Series

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

Publications from the European Central Bank (ECB)

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

All the Riksbank's publications are available in full text on its website (www.riksbank.se). The majority of them are published in both Swedish and English. The simplest way to order them is via the website. The Riksbank also publishes press releases, speeches, articles and minutes from the meetings of the Executive Board and the General Council on its website. The Riksbank's Economic Commentaries in the form of short studies and debate articles are also collected on the website. As of 2009, it is also possible to download the results of the Riksbank's company interview surveys and risk surveys in PDF format.

Address

Sveriges Riksbank
SE-103 37 Stockholm

Telephone

+46 8 787 00 00

Website

www.riksbank.se

The Sveriges Riksbank Prize in Economic Sciences in memory of Alfred Nobel 2011

The Sveriges Riksbank Prize in Economic Sciences in memory of Alfred Nobel 2011 was awarded to Thomas J. Sargent and Christopher A. Sims for their empirical research on cause and effect in the macroeconomy. Thomas J. Sargent has shown how structural macroeconomics can be used to analyse permanent changes in economic policy. Christopher A. Sims has developed a method based on so-called vector autoregression to analyse how the economy is affected by temporary changes in economic policy and other factors. They have thus presented methods that make it possible to identify causal relationships between economic policy and various macroeconomic variables such as GDP, inflation, employment and investment.

The Sveriges Riksbank Prize in Economic Sciences was established in connection with the Riksbank's 300th anniversary in 1968. In making its donation, the Riksbank committed itself to giving the Nobel Foundation each year in perpetuity the prize money and the amount necessary to cover the Foundation's administrative and financial expenses for the prize. The Government has established the statutes for the prize.



Thomas J. Sargent



Christopher A. Sims

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

Thomas J. Sargent was born in 1943 in Pasadena, CA, USA (US citizen). Ph.D. in economics, 1968, from Harvard University, Cambridge, MA, USA. William R. Berkley Professor of Economics and Business at New York University, New York, NY, USA.

Christopher A. Sims was born in 1942 in Washington, DC, USA (US citizen). Ph.D. in economics, 1968, from Harvard University, Cambridge, MA, USA. Harold H. Helm '20 Professor of Economics and Banking at Princeton University, Princeton, NJ, USA.

Previous laureates

The prize has been awarded every year from 1969 to the following persons:

1969	R. Frisch and J. Tinbergen	1984	R. Stone	1998	A. Sen
1970	P.A. Samuelson	1985	F. Modigliani	1999	R.A. Mundell
1971	S. Kuznets	1986	J.M. Buchanan Jr	2000	J.J. Heckman and D.L. McFadden
1972	J.R. Hicks and K.J. Arrow	1987	R.M. Solow	2001	G.A. Akerlof, A.M. Spence and J.E. Stiglitz
1973	W. Leontief	1988	M. Allais	2002	D. Kahneman and V.L. Smith
1974	G. Myrdal and F.A. von Hayek	1989	T. Haavelmo	2003	R.F. Engle and C.W.J. Granger
1975	L.V. Kantorovich and T.C. Koopmans	1990	H.M. Markowitz, M.H. Miller and W.F. Sharpe	2004	F.E. Kydland and E.C. Prescott
1976	M. Friedman	1991	R.H. Coase	2005	R.J. Aumann and T.C. Schelling
1977	B. Ohlin and J.E. Meade	1992	G.S. Becker	2006	E.S. Phelps
1978	H.A. Simon	1993	R.W. Fogel and D.C. North	2007	L. Hurwicz, E.S. Maskin and R.B. Myerson
1979	T.W. Schultz and A. Lewis	1994	J.C. Harsanyi, J.F. Nash Jr and R. Selten	2008	P. Krugman
1980	L.R. Klein	1995	R.E. Lucas Jr.	2009	E. Ostrom and O.E. Williamson
1981	J. Tobin	1996	J.A. Mirrlees and W. Vickrey	2010	P.A. Diamond, D.T. Mortensen and C.A. Pissarides
1982	G.J. Stigler	1997	R.C. Merton and M.S. Scholes		
1983	G. Debreu				

Glossary

Balance of payments Statistical report of a country's economic transactions with the rest of the world. Consists of the current account, capital account and financial account. The total is always zero, i.e. the payments are in balance.

Basel III International regulatory framework for financial institutions that mainly regulates banks' capital adequacy, i.e. how much capital a bank must hold in relation to the risk it takes, and the way they manage liquidity. The regulations were agreed on in 2010 and will be progressively phased in by 2019.

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

Basis point A hundredth of a per cent. Thus, 100 basis points is equivalent to 1 per cent.

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

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

Capital market Collective term for the stock, credit and derivatives markets.

CEBS, Committee of European Banking

Supervisors An independent advisory group founded in 2004 to advise the European Commission on the design of directives in the field of banking in the EU, to contribute to the consistent implementation of the directives in the Member States and to enhance cooperation and the exchange of information between the authorities. The CEBS consisted of representatives of supervisory authorities and central banks in the EU and was succeeded in 2009 by the European Banking Authority (EBA).

Central bank Institution responsible for monetary policy in a country or currency area, i.e. setting an interest rate to maintain price stability. Central banks are usually also responsible for maintaining the stability of the payment mechanism and issuing legal tender. The Riksbank is Sweden's central bank. In other countries central banks may also have other duties, such as being responsible for financial supervision or management of the central government debt.

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

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

Compliance Observance of external and internal regulatory frameworks. The Riksbank's compliance function ensures that the organisation complies with relevant laws and regulations.

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

CPI, Consumer Price Index Statistical measure of the price level. The CPI is calculated every month by Statistics Sweden (SCB). The Riksbank's inflation target is expressed in terms of the annual percentage change in the CPI.

CPIF, the CPI with a fixed mortgage rate See CPI. Unlike the CPI, the CPIF is not directly affected by changes in mortgage rates.

Currency swap See Swap agreement.

Derivative instrument Financial instrument that entails agreements on commitments, rights or other prerequisites at a given future point in time. The value of a derivative instrument is linked to an underlying asset. The most common derivative instruments are options, futures and swaps.

ECB, European Central Bank. Joint central bank for the EU Member States that have adopted the euro, with its head office in Frankfurt. The Bank's duties are stipulated in a statute that is part of the EU Treaty. The goal of the ECB's monetary policy is to maintain price stability in the euro area. The Governing Council is the highest decision-making body of the ECB. It consists of the six members of the Executive Board of the ECB and the governors of the national central banks in the countries that have adopted the euro.

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

EFC, EU Economic and Financial Committee

Advisory body to the ECOFIN Council and the European Commission. Monitors, among other things, economic and financial developments in the EU and the euro area and examines the stability and convergence programmes of the Member States. The central banks are represented in the EFC by their deputy governors.

ESCB, the European System of Central Banks

Forum for cooperation between the ECB and the national central banks in all the EU Member States.

ESRB, European Systemic Risk Board Independent EU body responsible for the macroprudential supervision of the financial system within the EU.

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

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

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

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

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

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

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

Fine-tuning operations Transactions that the Riksbank uses to absorb surplus liquidity from the banks or to enable the banks to borrow money from the Riksbank against collateral to keep the overnight rate stable and close to the repo rate.

Foreign currency reserve See Gold and foreign currency reserves.

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

FSAP, Financial Sector Assessment Programs

Programs for the evaluation of authorities, legislation and supervision that the International Monetary Fund (IMF) uses to examine and analyse a country's financial sector. The programs are mandatory for 25 selected countries with large financial sectors.

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

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

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

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

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

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

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

Interbank market Market where banks trade interest and currencies with each other.

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

Issuer Financial institution that issues securities.

LCR, Liquidity Coverage Ratio Measure of a bank's ability to handle a liquidity outflow over a period of 30 days. In simple terms, an LCR of 100 per cent means that a bank's liquidity reserves are adequate to enable the bank to manage an unexpected liquidity outflow for 30 days without collapsing.

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

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

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

Medieakademien Collaboration project between Göteborgs-Posten (a Gothenburg-based daily newspaper), the University of Gothenburg, Forsman & Bodenfors and NFO Infratest (now TNS Gallup) who have conducted an annual survey since 1997 to measure confidence in social institutions, private companies and the mass media.

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

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

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

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

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

NSFR, Net Stable Funding Ratio Measure of how much stable funding a bank has in relation to its illiquid assets. Its final form was not determined in 2011. The Riksbank based its assessments on a proposal presented by the Basel Committee in December 2010.

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

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

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

Price stability Condition where the prices of goods and services increase only moderately or not at all. According to the Riksbank's definition, price stability means limiting CPI inflation to 2 per cent.

Recession Slowdown in a country's economic development.

Repo, repo transaction Repurchase agreement similar to a short-term loan. The Riksbank lends money by purchasing securities from the banks. At the same time, the Riksbank undertakes to sell back these securities on a set date at a slightly higher price, where the difference in price corresponds to the repo rate. The Riksbank thus gets its money back, and the security returns to its original owner. The market participants call the Riksbank's repurchase of a security a reverse repo. Prior to the financial crisis in 2008, repos were usually carried out every week.

Repo rate The Riksbank's most important policy rate by which the Riksbank can control short market rates with the intention of affecting inflation. The banks pay the repo rate when they borrow money from the Riksbank through the Riksbank's repo transactions.

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

Riksbank certificates Securities with short maturities issued by the Riksbank for the purpose of absorbing surplus liquidity when necessary.

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

Risk premium Additional return that investors require as compensation for taking a higher risk.

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

RIX, the Riksbank's Payment System Central payment system that processes payments to and from the banks' accounts with the Riksbank. The Riksbank functions as the banks' bank for payments in Swedish krona.

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

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

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

Settlement system System for final regulation of debt when money or securities are transferred from one party to another, usually payment from one account to another.

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

SNS, Centre for Business and Policy Studies

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

Standard deviation Statistical measure that describes the extent to which the different values for a variable deviate from the mean value. If the different values are clustered close to the mean value the standard deviation is low, while values that are dispersed well over and above the mean value entail a high standard deviation. Calculated by recording the differences between each value and the mean value, squaring these differences, totalling them, dividing the total by the number of values and then calculating the square root of the result of this division.

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

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

Swap agreement Bilateral agreement to exchange a specific currency or interest rate in return for another currency or interest rate for a predetermined period according to specific conditions.

The SOM Institute Centre for the survey and seminar activities conducted jointly by the Department of Journalism and Mass Communication (JMG), the Department of Political Science and the Research Centre for the Public Sector (CEFOS) at Gothenburg University.

Tier I capital Equity less proposed dividends, deferred tax assets and intangible assets, such as goodwill. Tier 1 capital may also include some types of subordinated loan.

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

Volatility Term that describes how much the price of a financial asset varies. The more the value of the asset fluctuates, the higher its volatility. Volatility is usually measured as the standard deviation for the return of the asset and is used to measure the market risk of the asset.

Graphic design and production: Luxlucid.

Photography: Cover: AFP/Scansix, Torbjörn Carlson/Scansix, Jacob Forsell/Scansix, Keystone/Scansix, Gunnar Westerlind/Scansix, Bertil Ericson/Scansix. Images of the Executive Board, the General Council and employees: Petter Karlberg. Other: Matthias Sparreskog (pages 9, 89), Luxlucid (pages 10, 20, 24, 30, 40, 42), Håkan Flank (page 27), Erich Stering/DN/Scansix (page 34), Bildarkivet.se (page 38).

Print: Åtta.45 Tryckeri AB.



To order this publication, contact:

Sveriges Riksbank, Kontorsservicecenter,
SE-103 37 Stockholm, fax: +46 8 21 05 31,
e-mail: kontorsservicecenter@riksbank.se
or download from the website: www.riksbank.se.

ISSN 0347-5042.

Stockholm 2012.



Sveriges Riksbank
SE-103 37 Stockholm
(Brunkebergstorg 11)

www.riksbank.se
Tel: +46 8 787 00 00
Fax: +46 8 21 05 31