



ANNUAL REPORT 2014

"The Riksbank is the world's oldest central bank and our operations must be in keeping with the times and the world around us."

Governor of the Riksbank Stefan Ingves





△ Wall clock from the 1770s. The workings bear the signatures of two of Stockholm's foremost clockmakers of the period, Nils Berg and Swiss-born Augustin Bourdillon.



△ The Riksbank uses a digital clock when monetary policy transactions are executed.

▽ Grandfather clock, Rococo, 18th century. The workings bear the signature of Petter Ernst, who was active 1750–1784.



▽ Grandfather clock, straight, Late Baroque type. The workings bear the signature of Vincent Schultz, who was active in Stockholm until 1759.



Sveriges Riksbank is the world's oldest central bank, and was founded in 1668. The bank owns several old wall clocks and grandfather clocks that it received as pledges or collateral when borrowers were unable to repay their debts. These clocks date from the days when the Riksbank lent money to companies and the general public.

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INTERNAL CONTROL

AUDITOR'S REPORT FOR SVERIGES RIKSBANK 2014

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Annual report of the General Council

Under Chapter 10, Section 3 of the Sveriges Riksbank Act (1988:1385), the General Council shall present proposals to the Riksdag (the Swedish Parliament) and the Swedish National Audit Office regarding the allocation of the Riksbank's profits.

For several years, the General Council has applied 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 value effects, but including the price effects reported in the revaluation account on the balance sheet. For 2014 the General Council therefore proposes a transfer of SEK 4 100 million.

The General Council's account of activities for 2014 reports that the Council has met on 14 occasions during the year and gives an overall description of the matters discussed and the information the General Council has received at its meetings. The Council's report also describes how it has conducted its controlling function.

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 then selects from among its members a Chairperson and a Vice Chairperson.

Until 13 October 2014, the members of the General Council were Johan Germandt (Chairperson), Sven-Erik Österberg (as of 31 May 2011, Vice Chairperson 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). During the same period, deputy members were Hans Birger Ekström, Tommy Waidelich (as of 23 March 2012), Ulf Sjösten, Ann-Kristine Johansson, Chris Heister, Bosse Ringholm, Per Landgren (as of 25 August 2011), Catharina Bråkenhielm, Gunnar Andrén (as of 1 March 2014), Agneta Börjesson (as of 16 December 2011) and Håkan Larsson.

As of 14 October 2014, the General Council consists of the following members: Susanne Eberstein (Chairperson), Michael Lundholm (Vice Chairperson), Hans Hoff, Peter Egardt, Caroline Helmersson Olsson, Martin Kinnunen (as of 23 October), Hans Birger Ekström, Anders Karlsson, Roger Tiefensee, Agneta Börjesson and Chris Heister. The deputy members are Catharina Bråkenhielm, Elisabeth Björnsdotter Rahm, Tommy Waidelich, Oskar Öholm, Ann-Kristine Johansson, Olle Felten (as of 23 October), Carl B Hamilton, ClasGöran Carlsson, Karin Nilsson, Esabelle Dingizian (as of 2 December) and Stefan Attefall.

The General Council's tasks

The General Council has the task of monitoring and controlling how the Riksbank conducts its activities and how the members of the Executive Board manage its business. One of the ways the General Council can perform its supervisory role is through the Chairperson and Vice Chairperson attending the Executive Board meetings. The Chairperson and Vice Chairperson also have the right to speak at the Executive Board's meetings, but they do not have the right to vote or make proposals. The General Council also has an audit function whose work is carried out by an external accounting firm under the leadership of an authorised public accountant.

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.

Furthermore, 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 the Executive Board consults with the General Council on proposals to the Riksdag and the Government regarding government amendments to statutes or other central government measures.

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

The General Council's activities in 2014

During the year, the General Council held fourteen meetings.

The General Council made decisions during the year on the terms of employment and external assignments of the members of the Executive Board.

Members of the Executive Board

At its meeting on 6 October, the General Council decided to discharge Karolina Ekholm from her position as Member of the Executive Board.

On 19 December, the General Council decided to appoint Henry Ohlsson as new Deputy Governor and member of the Executive Board for a term of office of six years as of 12 January 2015.



The General Council of the Riksbank's Vice Chairperson Michael Lundholm and Chairperson Susanne Eberstein

Banknotes and coins

Four members of the General Council and four external experts formed the Drafting Committee for the design of banknotes and coins. The group was headed by General Council member Peter Egardt. The other group members from the General Council were Allan Widman, Sonia Karlsson and Anders Karlsson. The experts in the group were the State Herald of Sweden, the head of the Royal Coin Cabinet at the National Museum of Economy, one representative of the National Museum of Fine Arts and one representative of the Royal Swedish Academy of Fine Arts. The group's assignment was to draft questions on the graphic and artistic design of banknotes and coins, as well as questions regarding proposals on and the design of any commemorative or special circulation coins. At the group's meeting in May, it was noted that the group would probably not have to convene again until 2017 at earliest.

Over the year, the General Council received regular information on the current work on the new Swedish banknote and coin series and on the withdrawal of the 50- and 1 000-krona banknotes without foil strip that have been invalid since the start of the year.

Rules of procedure

At its meeting in February, the General Council decided to make certain amendments to its rules of procedure due to organisational changes at the Riksbank.

Riksbankens Jubileumsfond

At its meeting in August, the General Council decided to propose to the Riksdag that it appoint Kerstin Hessius as member of the Board of Directors of the foundation Riksbankens Jubileumsfond. The Riksdag resolved in accordance with the General Council's proposal on 24 October.

Communications to the Riksdag

Over the year, the Executive Board has consulted with the General Council on a submission to the Riksdag on certain banknotes and coins ceasing to be legal tender.

Follow-up of the work of the Executive Board

Part of the General Council's control was exercised in that the Chairperson and Vice Chairperson of the General Council followed the work of the Executive Board during the year, for example by attending the meetings of the Executive Board and 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. For example, they described current monetary policy and the work of overseeing the stability of the financial system. They also provided information on the state of the financial markets, in Sweden, in Europe and globally.



Susanne Eberstein (S)
Chairperson
Member of the Riksdag
Judge, Administrative Court of Appeal



Michael Lundholm (M)
Vice Chairperson
Professor, Stockholm University



Hans Hoff (S)
Member of the Riksdag
Ombudsman



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



Caroline Helmersson Olsson (S)
Member of the Riksdag
Ombudsman
Assistant nurse



Martin Kinnunen (SD)
Member of the Riksdag
Press Secretary



Hans Birger Ekström (M)
General Secretary, Moderate Party Parliamentary Secretariat



Anders Karlsson (S)
Former Member of the Riksdag



Roger Tiefensee (C)
Former Member of the Riksdag
Environmental economist



Agneta Börjesson (MP)
Member of the Riksdag
Master of Engineering



Chris Heister (M)
County Governor, Stockholm County
Former Member of the Riksdag

Furthermore, the General Council received regular information on the Riksbank's budget and business plan, on the follow-up of financial and operational risks and the results of asset management, on the outcome of activities in other respects and on the activities of the internal audit department.

Moreover, the General Council received information on the consultation responses decided on by the Executive Board during the year.

The Executive Board provided regular information on important international meetings and on important discussions within various international bodies. The General Council also received in-depth information on a number of the international assignments held by Governor Stefan Ingves. Furthermore, the General Council received regular information on the Riksbank's commitments to the International Monetary Fund (IMF).

As a supplement to the information given at the meetings, the General Council was invited to themed lunches with in-depth information on various current operational issues in conjunction with several meetings over the year.

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

The General Council examines the Riksbank's activities through its audit function. KPMG AB will undertake this assignment on behalf of the General Council from 1 April 2012 until 31 March 2015. At its meeting in November, the General Council decided to extend its agreement with KPMG AB by a further year, until 31 March 2016.

The General Council annually establishes a plan for the audit function's work. Over the year, the outsourcing of parts of IT operations was examined and reported in accordance with this plan. In addition, a follow-up was made of the measures resulting from previous findings. The Executive Board's information and reporting to the General Council, the Riksbank's work with banknotes and coins and the members of the Executive Board's performance of their duties were examined at the end of the year but reported at the start of 2015.

The General Council was also informed about the Swedish National Audit Office's annual examination of the Riksbank's activities. An agreement has been reached with the Swedish National Audit Office that, as of the audit of operations in 2013, it shall report the results of its audit to the General Council ahead of and in conjunction with the General Council's decision on its proposal for the allocation of profits, as well as when the Swedish National Audit Office has completed its audit.

Nothing in the follow-up of the work of the Executive Board members in 2014 gives reason for the General Council to direct any criticism against the performance of their duties.

Proposal for the allocation of profits for 2014

When reviewing the Riksbank's management for the year 2013 (2013/14:FiU23), the Riksdag approved the proposal put forward by the General Council that the allocation of net income for 2013 should be based on the 1988 principle for the allocation of net income 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 2014.

In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council has received a report for the 2014 financial year from the Executive Board. The General Council notes that on the basis of current accounting policies, the Riksbank reports a profit of SEK 3 267 million for 2014. 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 reported result has been positively affected by an exchange rate gain of SEK 544 million. This profit 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 therefore no adjustment was made for such an effect.
- A price gain of SEK 6 296 million was recorded as a price effect increase in the revaluation account on the balance sheet. The General Council has included this gain when calculating the allocation of the net income.

In accordance with the account below, the General Council proposes a transfer to the Treasury of SEK 4 100 million.

The exchange rate gain is transferred to the contingency fund. In addition, 10 per cent of the adjusted average profit is transferred there. As the proposed transfer and reversal to the contin-

gency fund is higher than the accounting profit, it is proposed that the remaining SEK 1 892 million be transferred from the balancing fund. The calculation on which the proposed allocation of profit is based can be found in the Appendix.

In conjunction with its annual examination of the Riksbank's annual report, the Swedish National Audit Office has also examined the proposed allocation of profit. The Swedish National Audit Office has no objections to it.

Profit for 2014 amounts to SEK 3 267 million. The General Council decided on 6 February 2015 to submit the following proposal for the allocation of the Riksbank's profits.

- SEK 4 100 million will be transferred to the Treasury.
- SEK 1 059 million will be transferred to the Riksbank's contingency fund.
- SEK 1 892 million will be transferred from the Riksbank's balancing fund.

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 6 February 2015



Susanne Eberstein
Chairperson

Calculation of the Riksbank's allocation of profit 2014

SEK million

1 CALCULATION OF THE RIKSBANK'S TRANSFER TO THE TREASURY

Adjustment of the year's profit

Profit for 2014	3 267
Less: Foreign exchange rate gain	-544
Plus: Price gain recorded on the balance sheet	6 296

Adjusted profit 2014 **9 019**

Calculation of average adjusted profit

Adjusted profit 2010	6 777
Adjusted profit 2011	10 356
Adjusted profit 2012	2 985
Adjusted profit 2013	-3 392
Adjusted profit 2014	9 019

Total adjusted profit for the past five years **25 745**

Average adjusted profit for the past five years **5 149**

Calculation of transfer amount

80% of the average adjusted profit	4 119
Rounding off to SEK 100 millions	-19

Transfer 2014 **4 100**

2 CALCULATION OF TRANSFER TO THE RIKSBANK'S CONTINGENCY FUND

Transfer to the Riksbank's contingency fund

Foreign exchange rate gain	544
10 % of the average adjusted profit	515

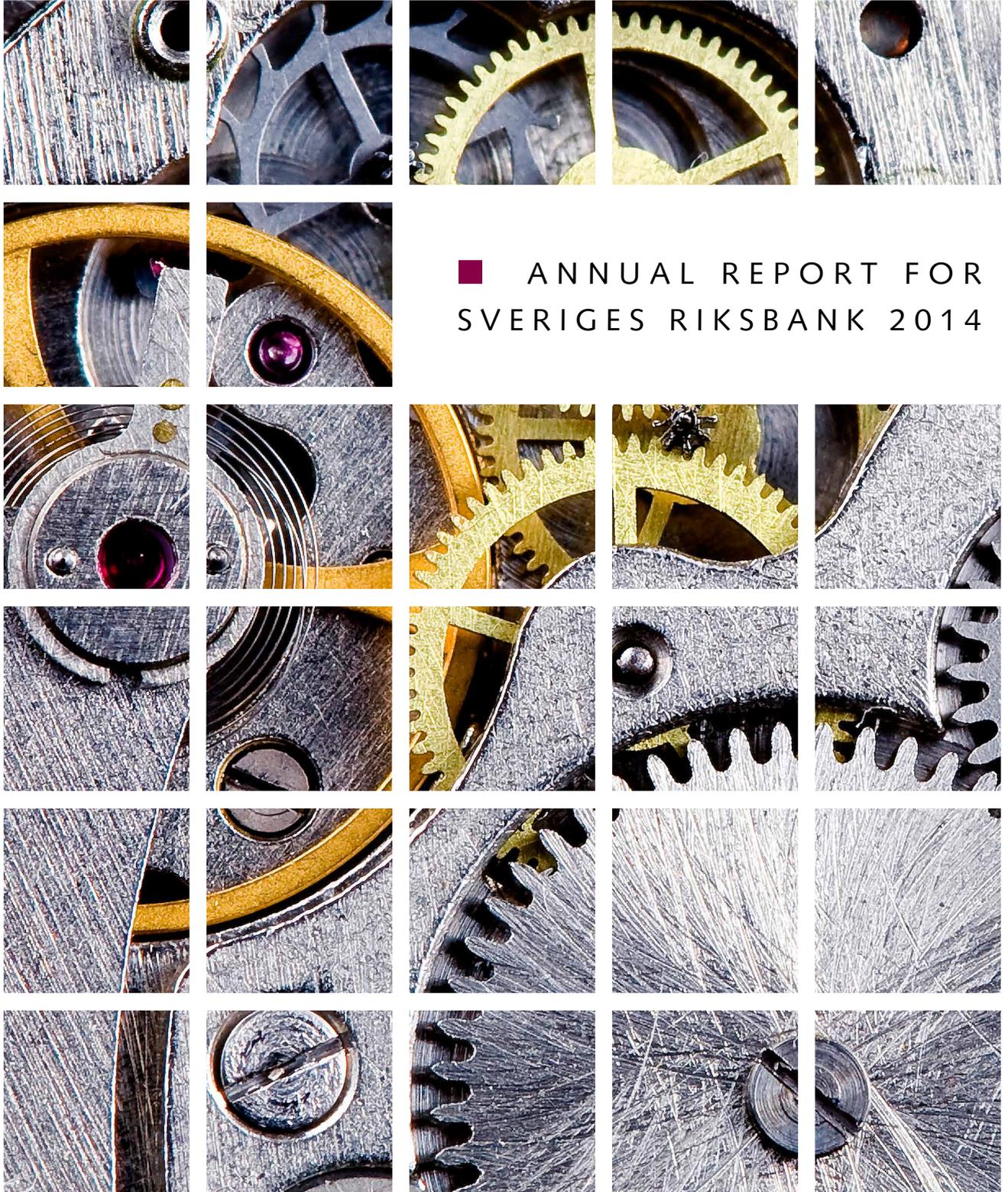
Total **1 059**

3 CALCULATION OF TRANSFER FROM THE RIKSBANK'S BALANCING FUND

Transfer from the Riksbank's balancing fund

10 % of the average adjusted profit	515
Price gain recorded on the balance sheet	-6 296
Rounding off of transfer	19
Adjusted profit less average profit	3 870

Total **-1 892**



■ ANNUAL REPORT FOR
SVERIGES RIKSBANK 2014

Statement by the Governor

In many respects, things went well for Sweden in 2014. Growth was relatively strong and the credit system continued to work well. But there were two major challenges – low inflation and increasing household debts. Over the year, the Riksbank gradually lowered the repo rate to zero to boost inflation. However, the low interest rate is increasing the risks that debts among Swedish households will rise further from their already high level. It is therefore urgent that measures are taken in other policy areas so that this development can be halted.

The Riksbank made preparations for the approaching bank-note and coin changeover that will start in 2015 and progress until 2017. An organisational change was carried out within the Riksbank to support our vision of being among the best as regards quality and efficiency.

Expansionary monetary policy to reach the inflation target

In 2014, we noticed that the Swedish economy was being impacted by the sluggish recovery of the euro area, easily our largest export market. Demand in the euro area was restrained partly by the euro area countries working to reduce their high levels of indebtedness and partly by the geopolitical uncertainty resulting from the conflicts in Ukraine, Syria and Iraq. The weak development of the euro area meant that Swedish exports grew more slowly than normal, even though demand was rising in the United States and Asia. However, Swedish households' economy and consumption developed relatively well. Swedish inflation continued to be low.

In 2014, we continued to pursue the expansionary monetary policy that the Riksbank has conducted for the last few years. We could see that inflation was becoming lower than we had expected and therefore lowered the repo rate successively to zero per cent. At the same time, we adjusted our interest rate forecast, the so-called repo-rate path, downwards. The repo rate is expected to remain at this level until inflation really picks up. Our assessment is that it will be appropriate to begin gradually increasing the repo rate in the second half of 2016. It is important that inflation rises towards the target of 2 per cent as the inflation target acts as an anchor for price and wage formation. Even if inflation can deviate from target over relatively long periods, it is crucial that long-term inflation expectations remain well-anchored around the target.

Measures are increasing the resilience of the Swedish financial system

We assessed that Sweden had a secure and effective payment system in 2014: the financial system functioned well, the financial infrastructure was highly secure and efficient and the Riksbank's payment system for large-value payments (RIX) also functioned well.

Swedish banks, companies and households had good funding opportunities over the year. Profitability in the banks was high and borrowers' debt-servicing ability was strong. Our previous recommendations to the banks contributed towards them further strengthening their buffers. Several measures were also adopted in recent years to increase the resilience of the Swedish banking system and reduce the risks that could threaten financial stability.

However, we could see that there were still vulnerabilities in the Swedish financial system, as the Swedish banks' assets are over three times the size of Sweden's GDP and a large part of their funding is obtained abroad. The banks are thus closely linked to the international markets, but they are also linked to each other through their funding and other connections. Problems in one bank can therefore rapidly spread through the entire banking system. These vulnerabilities mean that we need to act to achieve a high level of resilience in the Swedish financial system. In 2014, we were able to identify several measures that could increase resilience, for example we recommended Finansinspektionen (the Swedish Financial Supervisory Authority) to introduce a leverage ratio requirement for the banks.

We continued to deem that the greatest domestic risk that could threaten financial stability in Sweden over the long term was Swedish households' high and increasing indebtedness. We therefore recommended that more measures should be considered to counteract this development. Among these, we considered that Finansinspektionen should introduce an amortisation requirement for households.

Unsustainable development of household indebtedness

In my opinion, households' high and rising indebtedness is a problem in Sweden, from the perspective of both monetary policy and financial stability. The lessons of history show us that a rapid growth in debt, together with optimistic expectations of housing costs and housing prices, is a pattern that has often preceded financial crises. It is therefore important to slow down the increase of household indebtedness. This point of view is also shared by several international experts, such as the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD) and the European Commission.

We could choose from among a series of measures to reduce household indebtedness, for example amortisation requirements, limiting the proportion of variable interest-rate loans, abolishing tax relief and lowering the cap on the loan-to-income ratio. I think it is natural to demand the amortisation of mortgages, but complementary measures are needed if Sweden is to achieve a more sustainable development of debt. In the prevailing zero interest-rate situation, other policy areas must reduce the risks linked with household debt as a matter of urgency. Both measures aimed directly at households' demand for credit and reforms to improve the functioning of the housing market are needed.



Governor Stefan Ingves

Changes in the provision of cash

In 2015, the major changeover of banknotes and coins will start and run until 2017. We have an extensive task ahead of us and we worked intensively on various preparations in 2014. A first step on the way is the reduction of the number of banknotes and versions of banknotes ahead of the changeover. It stopped being possible to pay with the older versions of the 50-krona and 1 000-krona banknotes (without foil strip) after 31 December 2013. Our office for banknote handling in Sigtuna Municipality was completed in 2014. With this, we receive, issue and destroy banknotes at only one place in Sweden.

We have noticed that a clear trend that is affecting central banks is the rapid development of various digital payment methods that are gradually replacing cash as a means of payment. Sweden is at the forefront of this development. At the Riksbank, we are monitoring and analysing this development to understand how it will affect the financial system and our role in it. The declining usage of cash is also contributing towards a change in the Riksbank's financial position. This is because banknotes and coins form an interest-free debt that the Riksbank has towards the general public and that funds the Riksbank's financial assets to a certain extent.

A 350-year old at the forefront

Our vision of being among the best in terms of quality and efficiency in order to maintain a high level of public confidence places demands on the development of operations. We set up a partially-new organisation on 1 March to help deepen and expand our analyses in certain areas. We also introduced a committee structure to allow us to develop the forms for cooperation between our departments, thereby making it easier for us to address the new issues needing to be analysed.

During the autumn, we also adopted a new strategic plan aimed at our jubilee year in 2018. We want the world's oldest central bank, almost 350 years old, to be in the forefront and contributing to the stable economic development of households and companies. In brief, the plan means that our operation will be in line with the times and will produce a high-quality result that we communicate in an accessible and clear manner.

Stefan Ingves

The year at a glance

In 2014, the following areas were of great significance for the Riksbank's activities:

- Growth in the Swedish economy was dampened by the sluggish recovery of the euro area. Demand has been restrained by the euro area countries that have attempted to reduce their high levels of indebtedness and by the geopolitical uncertainty in the region. According to the Riksbank's assessment in December, GDP grew by 1.8 per cent in 2014. The weak development of the euro area led to slower than normal growth in Sweden's exports. However, Swedish households' economy and consumption developed relatively well.
- Recent years' trend in labour market developments continued: the number of people in the labour force increased at the same time as the number of people employed increased. Unemployment averaged 7.9 per cent in 2014, which is largely the same as in 2013.
- Inflation, measured as the change in the consumer price index (CPI), amounted to -0.2 per cent as an annual average. The low rate of inflation was largely due to the decrease of households' interest expenditure as a result of the Riksbank's own interest rate cuts. Inflation measured as the CPI with a fixed mortgage rate (CPIF) was 0.5 per cent on average over the year.
- The unexpectedly low inflation came to carry increasing weight in monetary policy decisions in 2014. This increased the need for further interest rate cuts to get inflation to rise towards the target of 2 per cent and to keep long-term inflation expectations well-anchored at the target.
- The Riksbank held the repo rate unchanged at 0.75 per cent up to July, when it was cut to 0.25 per cent. In October, the repo rate was lowered to zero per cent. The forecast for when the repo rate should start to be raised was also moved back during the year.
- In its monetary policy decision, the Executive Board emphasised that the risks associated with households' high levels of indebtedness increase when interest rates are low for a longer period. Reducing these risks would require the Government and other authorities to introduce measures aimed, among other things, directly at household demand for credit.
- The Riksbank assessed that the Swedish financial system was functioning well at the same time as the financial infrastructure in Sweden was highly secure and efficient. Among other things, financial stability in Sweden has benefited from the Swedish banks' high profitability, their good access to cheap funding and their low loan losses. The Swedish banks did not have any problems providing households and companies with credit. Lending to households, in particular lending for housing purchases, continued to increase over the year. Lending to companies also increased, but at a lower rate than household lending.
- The Riksbank considered the high and growing indebtedness among Swedish households to be a risk that could threaten both real economic and financial stability in Sweden in the long run. The Riksbank therefore recommended Finansinspektionen (the Swedish Financial Supervisory Authority) to introduce an amortisation requirement. However, this needs to be complemented by the gradual introduction of further measures to dampen households' demand for credit. Such measures will affect several policy areas.
- The Riksbank worked with macroprudential policy issues in several ways, for example through analyses of stricter capital requirements for major Swedish banks and measures to reduce households' debt. The Riksbank also produced briefing material for and participated in meetings of the newly-established Financial Stability Council during the year. In November, the Riksbank arranged a conference on macroprudential policy together with the

International Monetary Fund (IMF) to exchange experiences between different countries within this relatively new policy area.

- The Riksbank's new office for banknote handling in Sigtuna Municipality was completed. It is now the only office at which the Riksbank receives, issues and destroys banknotes.
- In December 2014, the General Council of the Riksbank decided to appoint Henry Ohlsson as Deputy Governor. The new member of the Executive Board took office on 12 January 2015 and succeeded Deputy Governor Karolina Ekholm, who left her post in October 2014.
- The Riksbank reported a profit of SEK 3.3 billion. Compared with 2013, the profit increased by SEK 5.3 billion, primarily due to lower write-downs related to the Riksbank's assets and liabilities. The balance sheet total increased during the year by SEK 70.8 billion to SEK 502.4 billion.
- The market value of the gold and foreign exchange reserves (including net receivables from the IMF) increased in 2014, from SEK 398.0 billion to SEK 464.0 billion. This change was mainly due to exchange rate fluctuations.

Key figures	2012	2013	2014
At year-end			
Profit for the year (SEK billion)	1.9	-2.0	3.3
Gold and foreign exchange reserves (SEK billion)	318	398	464
Total assets (SEK billion)	346	432	502
Average number of employees	354	336	329
Repo rate (per cent)			
	1.00	0.75	0.00
Short-term interest rate (three-month T-bills, per cent)			
	0.98	0.73	0.09
Long-term interest rate (ten-year government bonds, per cent)			
	1.53	2.53	0.94
On average			
GDP (percentage change)	-0.3	1.3	1.8
Unemployment (per cent)	8.0	8.0	7.9
Inflation, CPI (percentage change)	0.9	0.0	-0.2
Inflation, CPIF (percentage change)	1.0	0.9	0.5

Note. The table presents the outcome for all items with the exception of GDP and unemployment data for 2014, which are stated according to the Riksbank's forecast from December 2014. Statistics Sweden revised the National Accounts in 2014, entailing adjustments in the table as regards GDP figures compared with the Annual Report for 2013. CPIF is estimated as CPI with a fixed mortgage rate.

In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the Annual Report for Sveriges Riksbank includes an administration report, a balance sheet, a profit and loss account and a statement of internal control. In the administration report, the Riksbank describes how the Bank has conducted monetary policy, promoted a safe and effective payment system and carried out other tasks during the financial year. In its appendices, the Annual Report also reports on a number of other areas such as the operations of the Riksbank's departments, consultation work and publications.

In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act, the Executive Board of the Riksbank submits this report of the activities of the Riksbank in 2014 to the Riksdag, the Swedish National Audit Office and the General Council of the Riksbank.

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 system.

Maintaining the value of money – price stability

Under the Sveriges Riksbank Act (1988:1385), 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. However, the CPI is often affected by factors to which the Riksbank should not react, as these are only deemed to have temporary effects on inflation. Consequently, the Riksbank also describes and explains inflation and monetary policy using other inflation measures. These measures have been adjusted for price fluctuations that are expected to have temporary effects on the CPI, but not to affect the trend. One important such measure is the CPIF, in which inflation is adjusted for mortgage interest expenditure, which directly affects the CPI when the Riksbank adjusts the repo rate. The CPIF is thus inflation measured in terms of the CPI with a fixed mortgage rate.

The Riksbank's monetary policy is aimed at attaining the inflation target at the same time as it supports the objectives of general economic policy, whose aim is to achieve sustainable growth and high employment. The Riksbank does this by endeavouring both to stabilise inflation around the inflation target and to stabilise production and employment around paths that are sustainable in the long term. The Riksbank thus conducts what is referred to as flexible inflation targeting. The inflation target, however, takes precedence.

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.

The Riksbank monitors and analyses risks in the financial system to ascertain how these affect general economic development. Risks linked to financial imbalances, such as high indebtedness among Swedish households, are taken into account in the repo rate decisions. This is because such risks can seriously threaten inflationary and macro stability. Several policy areas will need to cooperate to manage the risks linked to household debt, particularly if housing prices and indebtedness increase rapidly. A smoothly functioning regulatory framework and efficient supervision are central conditions for this work.

A safe and efficient payment system

The Sveriges Riksbank Act states that the Riksbank shall promote a safe and efficient payment system. This means that the Riksbank shall act to promote stability in the Swedish financial system as a whole through preventive work and crisis management. The fundamental functions of the financial system are mediating payments, converting savings into funding (capital supply), and managing risk. As the financial system has great significance for the economy, the participants (such as the banks) in the system are regulated via special legislation, statutes and regulations from Swedish and European authorities. In Sweden, a framework for macroprudential policy has also been put into place and this will be important to the Riksbank's task.

The Riksbank's task of promoting a safe and efficient payment system includes issuing banknotes and coins. The Riksbank also provides a central payment system (RIX), which handles large-value payments in Swedish kronor between banks and other actors in a safe and efficient way.

Financial stability – preventive work and crisis management

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 analysing and 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 analysis focuses primarily on the major Swedish banking groups (Handelsbanken, Nordea, SEB and Swedbank), the functioning of the financial markets and the financial infrastructure required for payments by the public and the financial markets in Sweden to function. Together with Finansinspektionen (the Swedish Financial Supervisory Authority), the Riksbank has responsibility for preventing crises and thereby promoting the stability of the financial system.

The Riksbank's preventive work involves calling attention, in public and in dialogue with financial system participants, to risks and events that may threaten financial stability, both in Sweden and internationally. In this connection, the Riksbank makes recommendations to banks and other participants in the financial markets with the aim of getting them to understand and rectify the risks identified.

The Riksbank is in a position to influence the framing of laws and regulations that relate to supervision and crisis management, both by responding to consultation documents and by actively participating in the work of a number of international organisations. This international cooperation is important for several reasons. The globalised financial sector needs a clear and strong regulatory framework to ensure international minimum standards. As well as this, cooperation is also needed to make it possible to continually adjust and reinforce the forms for coordinated oversight and supervision by national authorities. Cooperation is also important as it facilitates the exchange of information the discussion of current risks and the development of risk-prevention work.

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 economic costs. 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 cooperation with authorities in Sweden and abroad. Supplying liquidity may mean that the Riksbank makes it easier for banks to borrow temporarily from the Riksbank under certain conditions. The Riksbank can also provide liquidity assistance to individual institutions on special terms and conditions. A more detailed description of the Riksbank's preventive work and crisis management can be found in the Riksbank's publication *The Riksbank and financial stability* (2013).

Macroprudential policy's importance for the Riksbank's tasks

The international financial crisis of 2007–2009 led to parts of the work of trying to discover, analyse and counteract risks in the financial system as a whole being gathered in the new policy area of macroprudential policy. Macroprudential policy has two primary functions. Firstly, it is to strengthen the resilience of the financial system, for example by measures giving the banks enough capital to manage loan losses. Secondly, it is to counteract the accumulation of financial imbalances that could later lead to costly adjustments. Financial imbalances may be a matter of unsustainable upswings in credit granting and indebtedness that could threaten the sustainability of economic development. Exactly what is to be included in macroprudential policy, which tools should be used, and the effects these tools should have are still not clear as the policy area is under development.



The Riksbank's top floor, facing the courtyard. Green plants in tall, white pots stand all along the courtyard façade.



Easels holding images of the new Swedish banknotes, due 2015 and 2016, stand in front of the tapestry “Guld och gröna skogar” (gold and green forests) by the artist Lennart Rodhe.

In Sweden, Finansinspektionen has been given the main responsibility for the instruments so far in place to influence financial stability. The Swedish framework for financial stability was also strengthened at the start of 2014. This included the establishment of the Financial Stability Council with representatives of the government, Finansinspektionen, the Swedish National Debt Office and the Riksbank. The Council discusses issues of financial stability and possible measures to counteract the accumulation of financial imbalances. In the event of a financial crisis, the Council will discuss possible measures to deal with the situation. However, the Council is only a forum for discussion and not a decision-making body. This means that the authorities represented can communicate their opinions on what they consider should be addressed, but decisions on which measures should be adopted are taken independently within each member’s area of responsibility.

The Riksbank has to consider the risks in the financial system as a whole, as well as which decisions are taken in macroprudential policy, if it is to be able to carry out both its policy tasks – maintaining price stability and promoting a safe and efficient payment system. A stable financial system is a prerequisite for the Riksbank to be able to conduct an effective monetary policy. This is because the financial markets and the way they work affect the impact of monetary policy. The price stability that forms the target for monetary policy is also a precondition for attaining financial stability.

The RIX payment system makes secure and efficient financial transfers

One way of promoting a safe and efficient payment system is to provide a system that makes it easier for the market participants to make mutual financial transfers without credit or liquidity risks. The Riksbank has therefore set up a central payment system (RIX), which handles large-value payments between banks and other actors in a safe and efficient way. In addition, the banks, clearing houses and other market agents participating in RIX always receive access to funding in Swedish kronor during the day. 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. RIX therefore plays a central role in the Swedish financial system. As RIX is of decisive importance to the efficient functioning of the financial system, the Riksbank has set high targets for its availability and functionality.

RIX is also of great significance to the operational framework for the implementation of monetary policy. The interest rates on the participants’ accounts in the Riksbank are directly linked to the repo rate. RIX also makes it easy for the monetary policy counterparties to balance their accounts in the Riksbank. Furthermore, it is through RIX that the Riksbank itself carries out different transactions such as monetary policy transactions of various types, provides credits for extraordinary situations, and pays for deliveries of cash to and from the banks. More detailed information on RIX can be found in the Riksbank’s report *The Swedish Financial Market (2014)*.

Safe and efficient cash supply

The Riksbank’s task of promoting a safe and efficient payment system also includes the exclusive right to issue banknotes and coins in Sweden and responsibility for the country’s cash provision. 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 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 banknotes and coins and in cash provision. The Riksbank also follows developments on the payment markets and analyses the use of cash and alternative means of payment in the economy.

The Riksbank's independence

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

The Executive Board of the Riksbank takes monetary policy decisions without 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 favourable conditions for the credibility of the inflation target.

The Riksbank's independent status is also reflected in its financial independence, guaranteed, among other things, through the right to manage financial assets. The aim of asset management is to ensure that it can fulfil its statutory objective and perform its tasks of implementing monetary policy, being prepared to intervene in the foreign exchange market and being able to provide temporary liquidity assistance to banks. Therefore the composition of the assets must ensure the tasks can always be performed. On the basis of this, asset management concentrates on achieving as high a long-term return as possible in relation to the risk determined by the Riksbank. A good long-term return on the assets also strengthens the Riksbank's financial independence.

Openness and communication

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

The independent status of the Riksbank also places great demands on communications and the transparency of the Riksbank's activities so that these can be examined and evaluated by the general public and the principal, the Riksdag. Openness is apparent, for example, in the fact that the Riksbank publishes on its website minutes and decision making material from the meetings of the Executive Board, as well as detailed minutes of the monetary policy meetings. Much of the Riksbank's analysis work is also presented in report form (see appendix 3). Moreover, the models used by the Riksbank in its analyses are publicly available – both macroeconomic forecast models and models for stress tests of banks.

Organisation and management

The Riksbank continued to develop its organisation and management with the aim of achieving its vision to be among the best in comparison with other organisations. The main organisational changes in 2014 were the formation of three new departments, among other things for the purpose of coordinating and deepening the financial analysis. In the autumn of 2014, a new strategic plan was also determined, along the theme of A 350-year old at the forefront, with activities focusing on the Riksbank's jubilee in 2018.

ORGANISATION

In 2014, the Riksbank consisted of seven departments (see Figure 1 and Appendix 1). Four of the departments work directly with the bank's main tasks: the Monetary Policy Department, the Financial Stability Department, the Markets Department and the Cash and Payment Systems Department.

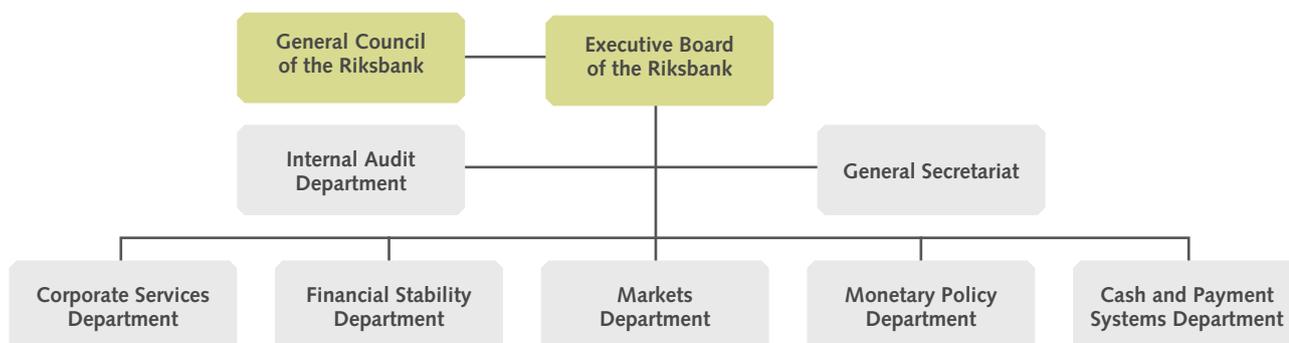
A Management Group consisting of the heads of all departments, with the exception of the Internal Audit Department, has the task of coordinating and following up activities. The Head of the Communications Division is also included in this group. The Head of the General Secretariat chairs the Management Group.

Changes in the organisational structure

On 1 March 2014, the Riksbank was partially reorganised. The reorganisation involved the division and merger of a few existing departments, but the number of departments remained the same as previously. These changes were made to make it possible to deepen and widen the analysis of certain areas. For example, the Riksbank wishes to attain better coordination of its financial analysis as well as greater depth in these analyses, and to gather the work on payment systems and cash provision.

The Riksbank's new cash-handling office in Sigtuna Municipality opened on 10 February 2014. Now that operations have been discontinued at the Riksbank's facilities in Mölndal and Tumba, all distribution of cash to the banks takes place from only one location. The banks then distribute the cash to the retail sector and the public via their cash depots.

Figure 1. The Riksbank's organisation in 2014



GOVERNANCE

The Riksbank is led by an Executive Board appointed by the General Council of the Riksbank. 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 of the Riksbank 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'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 there.

The Executive Board makes decisions jointly at its meetings. The Board held a total of 36 meetings during 2014, ten of which were meetings by circulation and six of which were monetary policy meetings.

At least twice a year, the Executive Board is required to present a written report on monetary policy to the Riksdag Committee on Finance. The first of these consists of a specific report, the Account of 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. This report is supplemented on each occasion by a public hearing. As of 2012, three hearings are held on monetary policy per year and, since the autumn of 2012, the Governor and one of the Deputy Governors of the Riksbank (according to a rotating schedule) always participate in these hearings at the Committee on Finance. In addition to the three monetary policy hearings, members of the Executive Board participated in three closed hearings at the Committee on Finance to discuss the Account of Monetary Policy and IMF matters.

Formal processing of the Riksbank's Annual Report

Pursuant to the Sveriges Riksbank Act, the Executive Board of the Riksbank must, before 22 February, submit an Annual Report of the Riksbank's activities during the preceding accounting year to the Riksdag, the Swedish National Audit Office and the General Council of the Riksbank. 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 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. Once the Riksdag has taken this decision, the Riksbank can transfer the amount decided upon to the Treasury. The transfer is normally made one week after the Riksdag's decision, in connection with the Riksbank's implementation of main operations (presently Riksbank Certificates).

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.

The Executive Board on 31 December 2014



Stefan Ingves
term of office six years
from 1 January 2012

Stefan Ingves is Governor of the Riksbank and Chairman of the Executive Board. He took up the post on 1 January 2006 for a term of office of six years and received a further term of office to lead the Executive Board of the Riksbank for another six years from 1 January 2012. Mr Ingves is a member of the General Council of the European Central Bank (ECB) and a member of the Board of Directors of the Bank for International Settlements (BIS), as well as Sweden's representative on the Board of Governors of the International Monetary Fund (IMF). He is also Chairman of the Basel Committee on Banking Supervision (BCBS) and Chairman of the Advisory Technical Committee (ATC) 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 ATC and the FSB's Cross-Border Crisis Management Group (CBCM) and is a Swedish delegate in the BCBS. Kerstin af Jochnick is an economist. She 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 (the Swedish Financial Supervisory Authority). She worked at the Riksbank from 1977 to 1991.



Martin Flodén
term of office five years
from 22 May 2013

Martin Flodén is Deputy Governor of the Riksbank. He represents the Riksbank in the OECD's Working Party Three and in the Bellagio Group. Mr Flodén is professor of economics at Stockholm University. He has previously been a member of the Economic Council of Sweden, the Swedish Fiscal Policy Council and the Swedish Centre for Business and Policy Studies' Economic Policy Group.



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 Nordic-Baltic constituency's committee for IMF cooperation. 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 worked at the Riksbank as Deputy Head of Department from 2003 to 2006 and as a Head of Division from 1996 to 2000.



Cecilia Skingsley
term of office six years
from 22 May 2013

Cecilia Skingsley is Deputy Governor of the Riksbank. She represents the Riksbank on the EU's Economic and Financial Committee (EFC) and on the ECB's International Relations Committee. Ms Skingsley has a BSc in economics and a financial analyst diploma. She was previously Chief Economist at Swedbank and has also worked at Dagens industri, ABN Amro Bank and the Ministry of Finance.

Member leaving her post on 6 October 2014:



Karolina Ekholm
term of office six years from 15 March 2009

Karolina Ekholm was Deputy Governor of the Riksbank. She was the Governor of the Riksbank's alternate on the ECB General Council and participated together with the Governor of the Riksbank in BIS board meetings and BIS Governors' meetings. She represented the Riksbank on the ESRB, in the regional group of the FSB and on the Committee on the Global Financial System (CGFS). 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 member of the Economic Council of Sweden and the Swedish Fiscal Policy Council.

Member appointed on 19 December 2014:

Henry Ohlsson
term of office six years from 12 January 2015

Henry Ohlsson was unanimously appointed by the General Council on 19 December 2014 to succeed Deputy Governor Karolina Ekholm. Mr Ohlsson took up the post of Deputy Governor of the Riksbank on 12 January 2015. He is professor of economics at Uppsala University and his previous positions include Chair of the Economic Council of Swedish Industry, member of the board of Arbetsförmedlingen (the Swedish Public Employment Service) and chairman of the Economic Council of Sweden.

General Council of the Riksbank

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 a Chairman and a Vice Chairman from among its members.

The General Council consisted of the following members on 31 December 2014: Susanne Eberstein (Chairperson), Michael Lundholm (Vice Chairperson), Hans Hoff, Peter Egardt, Caroline Helmersson Olsson, Martin Kinnunen, Hans Birger Ekström, Anders Karlsson, Roger Tiefensee, Agneta Börjesson and Chris Heister. The deputy members were Catharina Bråkenhielm, Elisabeth Björnsdotter Rahm, Tommy Waidelich, Oskar Öholm, Ann-Kristine Johansson, Olle Felten, Carl B Hamilton, ClasGöran Carlsson, Karin Nilsson, Esabelle Dingizian and Stefan Attefall.

The General Council's tasks

The General Council has the task of monitoring and controlling how the Riksbank conducts its activities and how the members of the Executive Board manage its business. One of the ways the General Council can perform its supervisory role is through the Chairperson and Vice Chairperson attending the Executive Board meetings. The Chairperson and Vice Chairperson also have the right to speak at the Executive Board's meetings, but they do not have the right to vote or make proposals. The General Council also has an audit function whose work is carried out by an external accounting firm under the leadership of an authorised public accountant.

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.

Furthermore, 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 the Executive Board consults with the General Council on proposals to the Riksdag and the Government regarding government amendments to statutes or other central government measures.

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

During the year, the General Council held fourteen meetings. At a meeting held on 19 December, the General Council appointed Henry Ohlsson as new member of the Executive Board with a term of office of six years from 12 January 2015.

An account of the General Council's activities is presented in the General Council's submission to the Riksdag 2014/15:RB2 Proposal for the allocation of the Riksbank's profits for the accounting year 2014 and the General Council's annual report for 2014.

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, a strategic plan, an annual business plan and internal regulations in the form of policies, rules and procedures.

The Riksbank's vision is to be among the best in terms of quality and efficiency in order to maintain a high level of public confidence. This means that our tasks are to be fulfilled to a high standard and for a reasonable cost. The Riksbank thus contributes to a stable development of the economy for companies and households in Sweden.

The vision's level of ambition means that the Riksbank must be among the best in comparison with other central banks and other comparable authorities, academic institutions and private companies. The vision is given more concrete form in operational objectives and result indicators for the Riksbank's different areas and activities.

Activities developed on the basis of a strategic plan

The Riksbank's business plan is based on a strategic plan that describes the task, vision and direction of future business plans. The strategic plan used as a guide until 2014 was decided upon in the autumn of 2011. It described the need for a new direction following a number of years in which the Riksbank had assessed and consolidated its operations to allow it to focus on building up its main tasks of monetary policy and financial stability. The new direction took experiences from the financial crisis as a starting point and involved increased integration of the Bank's main tasks, among other things.

In the autumn of 2014, a new strategic plan was determined, along the theme of A 350-year old at the forefront, with activities focusing on the Riksbank's jubilee in 2018. The plan consists of three strategic objectives: that all areas of the Riksbank's operations are to be in line with the times and the rest of the world, that it is to have an inspiring working climate that contributes to setting the right priorities and effective work, and that it is to achieve results of high quality to earn a high level of public confidence. These strategic objectives are to be attained with the aid of ten strategic priorities which will be given more concrete form with action plans in the annual business plans.

Internal control

Pursuant to the provisions of the Sveriges Riksbank Act, the Executive Board of the Riksbank presents, in the Annual Report, with effect from the financial year 2011, an evaluation of the Bank's internal control.

The Executive Board is ultimately responsible for internal control 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 to the Executive Board three times a year. In addition, the Risk Division follows

up internal control on the basis of the governance and control environment, risk analysis, control mechanisms, information and communication as well as follow-up and reporting.

The Executive Board has also commissioned the Internal Audit Department to carry out an independent evaluation of internal control, including operational risks.

The Riksbank uses indicators to measure results

In 2014 the Riksbank's activities were divided into seven target areas: monetary policy, financial stability, the RIX payment system, cash provision, asset management, statistics and an overall Riksbank area. The bank-wide area was, in turn, divided up into seven parts: communication, employees, management and governance, IT, administrative support and service, environment and resources.

A number of targets are determined for each area. These are intended to put the implications of the vision's ambition, among the best, into concrete terms for the area. One or more result indicators are linked to each target, and these are intended to give a view of how well the Riksbank is fulfilling this ambition level. One example is the Riksbank's forecasting performance, one indicator of which is an annual comparison with nine other forecasters. For this indicator, among the best has been interpreted as being placed among the three best in the ranking.

The Executive Board received two follow-up reports in 2014 summarising the status of the indicators, the action plans, the budget and the operational risks. In total, 93 indicators were linked to the goals in the 2014 business plan. Of the 85 indicators that could be evaluated, approximately 80 per cent recorded positive results in the follow-ups. The results from the Riksbank's various operational areas are presented under the respective sections of the annual report.

Risks in the Riksbank's activities

The Riksbank's activities entail both financial and operational risks. The financial risks arise above all in the management of the gold and foreign exchange reserves and are described in more detail in the article "The Riksbank's financial regulatory structure and management of various risks" in the section "Asset management".

Operational risks may damage the activities, assets or reputation of the Riksbank and arise as a result of human error or shortcomings in manning, internal processes or IT systems, or are affected by external events. Risks of this type are to be found throughout the Riksbank's operations, both in the course of day-to-day work and in connection with changes. Certain risks are of a more strategic nature and are monitored in order to avoid negative consequences in the longer term.

To succeed in its tasks, it is important that the Riksbank can quickly identify and manage both internal disruptions and external events. This applies to everything from managing changes in potential threats to cash operations or IT support to adjusting pro-

cesses and systems to new conditions.

The Riksbank works systematically with risk management on the basis of an established, bank-wide process for operational risks. This process is subject to continuous development, and risk management and business planning are integrated through coordinated processes for follow-up and documentation.

The risks that have been identified historically in the Riksbank's activities primarily relate to the handling of confidential information, IT infrastructure, internal processes and dependence on external parties. These risks can above all affect the Riksbank's efficiency and ability to attain its operational goals.

In 2014, the level of risk in cash handling was affected by a number of major projects. The operations' annual risk analyses and incident reporting do not indicate that the risk level for the Bank as a whole has been significantly affected in 2014. All incidents were managed with the support of the Riksbank's procedures.

Confidence among the Riksbank's target groups

The Riksbank's vision is to be among the best in order to maintain a high level of public confidence. To measure the development of public confidence and the confidence of various target groups in the Riksbank, the Riksbank regularly uses external surveys. Surveys presented in 2014 showed that the level of confidence among the public and the target groups in the Riksbank remains high. Once more, the Riksbank is among the five Swedish social institutions with the highest confidence ratings in Sweden, both in the SOM Institute's report "Förtroendet för Riksbanken" (Confidence in the Riksbank) and in Medicakademin's confidence barometer, which measures and compares confidence in a number of different institutions and organisations in Sweden. TNS Sifo's annual survey of the reputation of Swedish authorities also ranked the Riksbank among the five authorities with the best reputations in the country. However, these surveys showed varying results for the development of confidence. The surveys by the SOM Institute and TNS Sifo indicated slightly stronger confidence and reputation for the Riksbank compared with the previous year, while Medicakademin's survey suggested slightly weaker confidence.

Communication

Media reporting on the Riksbank was less comprehensive in 2014 than in the previous year, apart from certain peaks in publicity. The monetary policy decisions were the focus of reporting. The repo-rate cut in July was the most written-about monetary policy decision in several years. Other matters that characterised reporting over the year were the Riksbank's forecasting performance and the low level of inflation in relation to the inflation target. Household indebtedness is an issue that the Riksbank has emphasised as a major risk. Consequently, the Riksbank's Economic Commentary "How indebted are Swedish households?" attracted comprehensive media interest. In addition to this, issues related to the Riksbank's tasks, targets and mandates have been discussed by the media.

In July, the Riksbank launched a newsletter aimed primarily at its principal, the Riksdag, with the aim of making it easier for members to follow the Riksbank's activities. In conjunction with this, the Riksbank participated in the political forum at Almedalen for the first time. The newsletter, which is sent to all members of the Riksdag, is available from the Riksbank's website.

In 2014, the Riksbank was awarded a prize by Central Banking Publications for its openness in the form of the distinction Central Banking Transparency Award. The citation for the prize says that the Riksbank plays a pioneering role in central bank openness and clear communications by determinedly ensuring its processes and decision-making are transparent and clearly communicated.

Employees

At the end of 2014, the Riksbank had a total of 365 employees (329 full-year equivalent positions). Employees often have complex tasks and face high demands. To meet the challenges they are faced with, it is important that all employees contribute towards creating and developing a good working environment. This creates the conditions for combining the need for professional development with a good work-life balance.

Strategic investment in leadership and employeeship

According to the strategic plan developed in 2014, the Riksbank is to have an inspiring working climate that contributes to setting the right priorities for the best results. Achieving this requires good leadership. Each year, managers at the Riksbank gather for one or two days to work on leadership issues. At last autumn's managerial meeting, the focus was on the further development of cohesive and active leadership to meet the challenges faced by the Riksbank and to continue to develop a stimulating working climate. This work resulted in a new manager and staff policy for adoption in 2015 and a concrete action plan for 2015–2016.

In parallel with the leadership campaign, the Riksbank continued to anchor the approaches and to clarify the behaviours formulated in 2013 that are connected with good employeeship. The key concepts in employeeship are results, initiative, competence, cooperation and job satisfaction.

The Riksbank as an attractive workplace

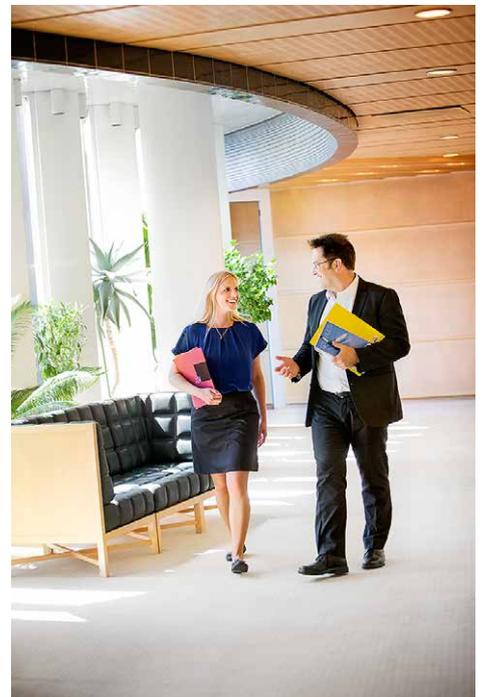
For many years, the Riksbank has worked on strengthening the brand “the Riksbank as a workplace” to recruit and retain competent staff. The results of this strategic work, known as employer branding, include students of economics ranking the Riksbank as the most attractive employer within the public sector in the Business Tendency Survey. In 2014, the Riksbank was also nominated by the survey company Universum as employer branding company of the year.

This view of the Riksbank as an attractive employer is also confirmed internally. The survey issued to all employees in the age group 40 or under shows that our employees associate the Riksbank with qualities such as being a dynamic and creative working environment and having inspiring leaders.

The Riksbank has marketed itself as a workplace with the assistance of its own employees, at places such as Swedish universities and international labour market fairs. Over the year, investments were made in establishing relationships with PhD students in economics who may be of interest to the Riksbank in the long term. The Riksbank has also raised its visibility as workplace on its website, on career websites, in newspaper articles and in its situations vacant advertisements.

Employee health

The sickness rate among the Riksbank's employees was 1.7 per cent in 2014, which is an increase of 0.1 percentage points since 2013. As in previous years, employees were able to participate in the Riksbank's preventive healthcare measures such as exercise and subsidised massage.



Light and airy corridor on the 12th floor.

Louise Oscarus and David Farelus.

Maintaining the value of money – price stability

The growth of the Swedish economy continued in 2014 at about the same rate as in 2013. According to the Riksbank's assessment, GDP grew by 1.8 per cent. At the same time, inflationary pressures remained very low. Due to the unexpectedly low inflation outcomes and ever-lower inflationary pressures, the Riksbank cut the repo rate to 0.25 per cent in July and to zero per cent in October.

Average unemployment in 2014 was more or less unchanged compared with 2013, meaning a level of 7.9 per cent. Inflation in 2014 was lower than in 2013. The annual average of CPI inflation was -0.2 per cent, while inflation measured as the CPIX amounted to an average of 0.5 per cent.

Chart 1

Household debt, percentage of disposable income

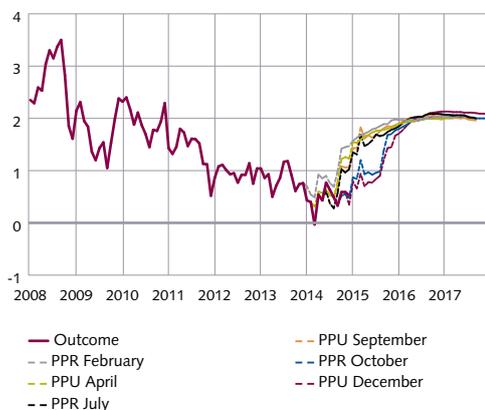


Note. Debts refer to total debts.

Sources: Statistics Sweden and the Riksbank.

Chart 2

CPIX and CPIX forecasts in 2014, annual percentage change



Note. The CPIX is the CPI with a fixed mortgage rate. The broken lines represent the Riksbank's forecasts.

Sources: Statistics Sweden and the Riksbank.

MONETARY POLICY DECISIONS

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 (MPR) that contains detailed forecasts for the economy and inflation as well as assessments of how the repo rate will develop in the period ahead. After the three other meetings, a Monetary Policy Update (MPU) is published, which contains forecasts for the same variables as in the Monetary Policy Report, although this update is less extensive than the report.

The unexpectedly low inflation came to carry increasing weight in monetary policy decisions in 2014. If inflation were to deviate from target for too long, the Executive Board deemed a risk would arise that inflation expectations would not remain anchored at the inflation target. In such a case, the inflation target's role as nominal anchor would risk being weakened. The repo rate cuts down to zero per cent were thus aimed not only at making actual inflation rise but also at sending a clear signal about the importance of the nominal anchor. At the same time, the Executive Board emphasised that the low interest rate would increase the risk of households' debts developing in an unsustainable direction. However, the Executive Board considered that responsibility for managing these risks now lay with the Government and other authorities.

The following sections provide a more detailed description of economic developments and the background to the monetary policy decisions taken over the year.

Continued expansionary monetary policy at the start of the year

In December 2013, the repo rate was 0.75 per cent. It had then gradually been adjusted downwards from 2 per cent in autumn 2011 due to worsened economic prospects caused by the European sovereign debt crisis and ever-lower inflationary pressures.

At the start of 2014, the Executive Board noted that the prospects for an economic recovery were good abroad. In the euro area, the recovery was expected to take place at a slow rate, while growth prospects were better in other important Swedish export markets such as the United States and United Kingdom. Inflation abroad had fallen in recent years but was expected to rise gradually as economic activity improved.

Following a few years of weak growth, the Executive Board assessed, at the monetary policy meeting in February, that the prospects were good for Sweden's economy. Confidence was increasing among Swedish companies and households at the same time as the labour market was improving. Together with the gradual strengthening of international demand, the conditions for stronger growth in Sweden in 2014 were in place.

Despite the improved economic prospects, inflation continued to be low. One reason for this was that price increases in companies were low in relation to the development of costs. Nevertheless, the assessment was that companies could transfer their increased costs to consumer prices after economic activity had improved.

One factor that the Executive Board has discussed heavily during recent years' interest rate decisions is households' high indebtedness (see Chart 1). The development of household debt is linked to the development of housing prices, which is because housing purchases are largely financed through loans. The monetary policy decisions have involved a balance between stabilising inflation in the short term and taking into consideration the effects the repo rate has on household indebtedness and thus the risk of an unfavourable scenario later on.

Ahead of the monetary policy meeting in April, new information confirmed that international developments were continuing to improve in line with previous assessments. However, inflation abroad continued to be low and cost pressures were expected to be relatively moderate in the period to come.

A strong GDP outcome for the fourth quarter of 2013 had been reported since the last monetary policy meeting in February. The Executive Board viewed this as a further indication that the economic recovery had started in Sweden. In addition, consumer confidence was relatively strong. The view of the economic prospects from the February meeting largely persisted. Prospects were also unchanged between February and April as regards the development of the labour market.

But just as at the meeting in February, the Executive Board could observe that inflation continued to be low, even though economic prospects had improved. Inflation in recent months had been lower than was forecast in February, which resulted in the inflation forecast being revised downwards slightly (see Chart 2). The economic outlook for the period ahead also suggested this time that companies would start to raise their prices to a greater extent in the future.

The Executive Board's task of finding a balance between stabilising inflation in the short term while simultaneously taking account of the risks associated with household indebtedness had become even more complicated by the monetary policy meeting in April. This was because inflation was expected to become lower at the same time as household debts were deemed to increase more rapidly than in the previous forecast. The Executive Board concluded that the low rate of inflation meant that monetary policy could be used to manage the risks linked with household indebtedness to a lesser extent than previously. It was consequently deemed to be highly imperative that measures were adopted within other policy areas.

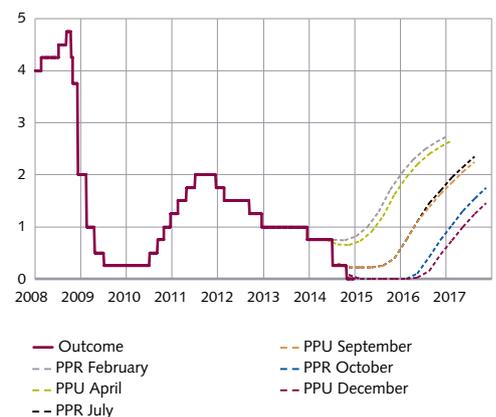
In light of this, the Executive Board decided to leave the repo rate unchanged at 0.75 per cent at the monetary policy meeting in April (see Chart 3). However, the surprisingly low inflation outcome had increased uncertainty over how rapidly inflation would rise, which led to a downward revision of the short-term repo-rate forecast.

Low inflation led to interest rate cut in July

The view of economic prospects in Sweden and abroad was relatively unchanged ahead of the monetary policy meeting in July. However, the Executive Board now made the assessment that inflationary pressures would be significantly lower than previously expected and that monetary policy therefore needed to be more expansionary. A number of interacting factors contributed to this. These included the inflationary outcome continuing to be lower than expected by both the Riksbank and market participants. Since the monetary policy meeting in April, three new inflationary outcomes had been pub-

Chart 3

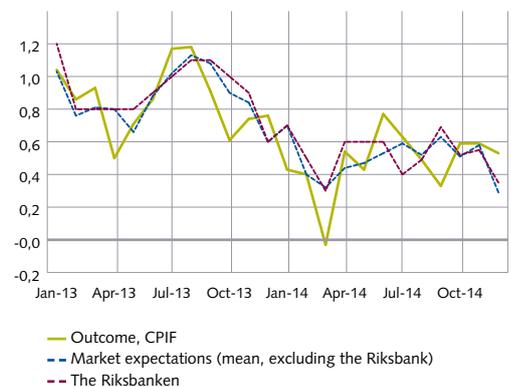
Repo rate and repo rate forecasts in 2014, per cent



Note. The broken lines represent the Riksbank's forecasts.
 Source: The Riksbank.

Chart 4

The Riksbank's and the market's short-term forecasts for inflation, annual percentage change



Note. The Riksbank's forecasts according to the most recently-published forecast and market expectations, compared with outcomes. The Riksbank's figures are not entirely comparable with market participants' expectations, as the Riksbank's forecasts are often older.

Sources: Bloomberg, Statistics Sweden and the Riksbank.

Monetary policy decisions and reservations 2014

12 February The repo rate was held unchanged at 0.75 per cent. The forecast for the repo rate was held unchanged.

8 April The repo rate was held unchanged at 0.75 per cent. The forecast for the repo rate was adjusted downwards. Deputy Governors Karolina Ekholm and Martin Flodén entered reservations against the decision to hold the repo rate unchanged and against the repo-rate path in the Monetary Policy Update. They advocated cutting the repo rate to 0.5 per cent and lower repo-rate paths.

2 July The repo rate was cut by 0.5 percentage points to 0.25 per cent. The forecast for the repo rate was adjusted markedly downwards. Governor Stefan Ingves and First Deputy Governor Kerstin af Jochnick entered a reservation against the decision to cut the repo rate to 0.25 per cent and against the repo-rate path. They advocated a smaller repo-rate cut by 0.25 percentage points and a repo-rate path in which the repo rate would instead start to be raised later.

3 September The repo rate was held unchanged at 0.25 per cent. The forecast for the repo rate was adjusted marginally downwards.

27 October The repo rate was cut by 0.25 percentage points to zero per cent. The forecast for the repo rate was adjusted markedly downwards. At the same time, the interest rate for fine-tuning operations, in the form of credit (against collateral) or overnight deposits, was changed to zero per cent from the repo rate +/- 10 basis points.

15 December The repo rate was held unchanged at zero per cent. The forecast for the repo rate suggested that the repo rate would remain at zero per cent for a somewhat longer period than was forecast in October.

lished for March, April and May, and all of these were lower than the Riksbank's forecast (see Chart 4).

The low inflation also embraced many categories of goods and services, which indicated low underlying inflationary pressures. In addition, international inflationary pressures continued to be low, which meant that monetary policy abroad became more expansionary than previously and that policy rates abroad would thus become lower. Among other things, the ECB had recently lowered its policy rate and signalled that its interest rate would be low for a long period to come. If the policy rate is higher in Sweden than abroad, the krona exchange rate will tend to strengthen, contributing to lower inflation through lower import prices. All other things being equal, the lower policy rates abroad thus argued for lower policy rates in Sweden too. In addition, there was a risk that a rate of inflation below target for a long time would influence inflation expectations so that they would no longer be anchored around the target of 2 per cent. The inflation target thus risked losing credibility in its role of nominal anchor. The longer inflation deviated from target, the greater this risk was deemed to be. All in all, these factors clearly indicated that the repo rate and repo-rate path should be lowered at the monetary policy meeting in July.

The low inflation carried considerable weight in the monetary policy decision. At its meeting in July, the Executive Board decided to cut the interest rate by 0.5 percentage points and revise the repo-rate forecast strongly downwards (see Chart 3). The new interest-rate forecast meant that the repo rate would not start to be raised until the end of 2015. The Executive Board assessed that the more expansionary monetary policy would not only contribute towards pushing up actual inflation but also towards holding inflation expectations around 2 per cent, as it would send a clear signal that monetary policy would ensure that inflation would approach the target within the reasonably near future.

In connection with the interest-rate decision in July, the Executive Board observed that the low interest rate situation had led the risks connected with households' high levels of indebtedness to increase. However, it was considered that responsibility for managing these risks now lay with other authorities. Finansinspektionen (the Swedish Financial Supervisory Authority) had recently presented stricter capital requirements for Swedish banks. All in all, the Executive Board expected that the most important effect of these requirements would be to strengthen the resilience of the Swedish banking system. In contrast, the direct effects on household indebtedness were expected to be small (see the section Monetary policy analysis). To handle the risks linked to household indebtedness, the Executive Board argued that not only measures to increase the resilience of the banking system were needed. Measures aimed directly at household demand for credit were also needed, for example tougher amortisation requirements and sound minimum levels in the discretionary income calculations that form part of the banks' credit assessments. In addition, the Executive Board considered that it was important to carry out reforms to increase the supply of housing.

Ahead of the monetary policy meeting in September, the Executive Board was able to note that growth prospects abroad had become less certain, among other reasons due to the growing unease in Ukraine. However, the Executive Board observed that, even if some revisions had been made to the forecasts of GDP and inflation, the prospects for economic activity and inflation were roughly in line with the assessment made in July. Given this, the Executive Board decided to leave the repo rate unchanged at 0.25 per cent (see Chart 3). But the weaker development abroad and its negative effects on Swedish growth led to a smaller downward adjustment of the repo-rate forecast.

The repo rate was lowered to zero in October

Ahead of the monetary policy meeting in October, the Executive Board made the assessment that growth in the euro area would be lower than previously expected, dampening international prospects. The forecasts for inflation abroad were also revised downwards. In Sweden, economic activity continued to improve, primarily due to good growth in household consumption and housing investment.

Despite the fact that both GDP and employment had developed relatively well over the last 12 months, inflation had continued to be lower than expected. The forecasting error for inflation in September was large and, in addition, the low inflation was distributed across several sub-groups of the CPI. The broad downturn in inflation and the repeated downward revisions of the inflation forecast implied that underlying inflationary pressures was lower than previously assessed. This, together with lower inflation and weaker economic growth abroad, led the Executive Board to make the overall assessment that it would take even longer for inflation in Sweden to reach 2 per cent (see Chart 2).

The repo rate was therefore cut by 0.25 per cent to zero per cent, at the same time as the forecast for the repo rate was revised significantly downwards (see Chart 3). The Executive Board assessed that the repo rate would have to remain at zero per cent until inflation had clearly picked up. Slow increases in the repo rate were not expected to start until mid-2016. The highly expansionary monetary policy was expected to increase demand in the economy and thereby to contribute towards higher inflationary pressures. In addition, just as in July, the repo-rate cut was expected to contribute to keeping inflation expectations anchored around 2 per cent by sending a clear signal that monetary policy was focused on bringing inflation towards the inflation target.

Ahead of the monetary policy meeting in December, the Executive Board made the assessment that the economic recovery abroad would continue but, as before, there were large differences between regions. The oil price had continued to fall steeply since October and had reached the lowest level since 2010.

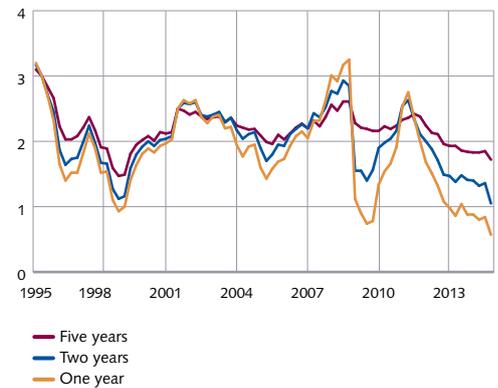
Internationally, this was deemed to mean that growth became lower in countries dependent on oil exports while it became higher in oil-importing countries. All in all, growth prospects remained largely unchanged, compared with the assessment in October. However, one clear effect of the lower oil price was that inflation abroad was now expected to be significantly lower than in the October forecast.

Since the Monetary Policy Report in October, economic activity in Sweden had continued to improve, but inflation was still low and long-term inflation expectations had fallen (see Chart 5). The development of the real economy had been in line with the Riksbank's forecast and GDP and employment were expected to continue rising in line with the earlier assessment. However, inflation was expected to be somewhat lower for a period of time, primarily due to the falling oil price.

All in all, the Executive Board made the assessment that monetary policy needed to be even more expansionary, partly to ensure that inflation approached the target quickly enough and partly to reduce the risk of long-term inflation expectations continuing to fall. The repo rate was now expected to need to remain at zero per cent for slightly longer than in the October forecast – until the second six months of 2016 (see Chart 3). At this point, CPIF inflation was expected to be close to 2 per cent, at the same time as GDP growth had been relatively high for about a year and unemployment had been falling for some time. In other words, it was a situation with a very low repo rate in relation to the prevailing economic and inflationary situations. The Executive Board also noted that, if monetary policy needed to become even more expansionary in the period ahead, the main option would be to continue to defer a return to raising the repo rate. The Riksbank also announced the

Chart 5

Inflation expectations one, two and five years ahead

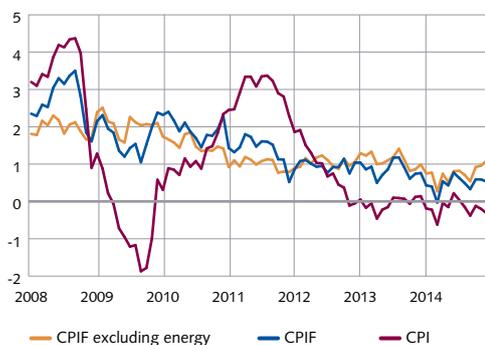
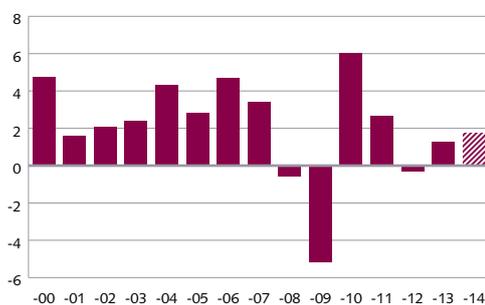


Source: TNS SIFO Prospera.

Table 1. Comparison of different measures of inflation, annual percentage change

	2012	2013	2014
CPI	0,9	0,0	-0,2
CPIF	1,0	0,9	0,5
CPIF excluding energy	1,0	1,1	0,7

Sources: Statistics Sweden and the Riksbank.

Chart 6**The CPI, CPIF and CPIF excluding energy, annual percentage change**Note. The CPIF is the CPI with a fixed mortgage rate.
Source: Statistics Sweden.**Chart 7****GDP in Sweden, annual percentage change**

Note. The striped bar represents the Riksbank's forecast from December 2014. Due to the reorientation and revision of the National Accounts, GDP growth for 2000–2012 differs from that given in the Annual Report for 2013.

Sources: Statistics Sweden and the Riksbank.

preparation of further measures that could be used to make monetary policy even more expansionary. Such measures, were they necessary, could be presented with effect from the next monetary policy meeting.

As at the most recent monetary policy meetings, the Executive Board deemed that the low repo rate, apart from continuing to stimulate economic policy, would contribute towards the continuation of the trend of rising housing prices and indebtedness among households. In November, Finansinspektionen had presented a proposal for amortisation requirements for new mortgages (see the section A safe and efficient payment system). The Executive Board considered that the proposal was a step in the right direction but, at the same time, made the assessment that it would only have marginal effects on household indebtedness. To reduce the risks, the Executive Board therefore expressed the opinion that further measures would have to be introduced gradually over a longer period of time. However, responsibility for this lay with other policy areas than monetary policy and, in this context, the Executive Board pointed both to further macroprudential policy measures and to measures within taxation and housing policies.

Follow-up

The Riksbank's monetary policy is evaluated by the Riksdag Committee on Finance. For this evaluation, the Riksbank compiles the report Account of Monetary Policy, which is published after the first Monetary Policy Report of the year. The report for 2014 will be submitted to the Riksdag in March 2015.

Inflation

On average, CPI inflation was -0.2 per cent in 2014 (see Table 1). The low level of CPI inflation was largely due to the Riksbank cutting the repo rate by 0.25 percentage points in December 2013, by 0.5 percentage points in July 2014, and by 0.25 percentage points in October 2014. The average repo rate in 2014 was therefore significantly lower than in 2013. When the repo rate is cut, household's interest expenditure for mortgages decreases, giving lower CPI inflation (see Chart 6).

However, the CPIF inflation rate, that is the CPI with a fixed mortgage rate, was also low in 2014. On average, CPIF inflation was 0.5 percent in 2014 (see Chart 6 and Table 1). It was significantly lower than in 2012 and 2013, when CPIF inflation was around 1 per cent. The CPIF excluding energy prices was slightly higher in 2014, at 0.7 per cent.

Development of the real economy

According to the Riksbank's assessment in December, GDP increased by 1.8 per cent in 2014, which was slightly more than in 2013 (see Chart 7). At the same time, the Riksbank considered that demand for Swedish export goods continued to be relatively low, but, following a decrease in 2013, Swedish exports increased in 2014 by 2.2 per cent. Investments also developed weakly, according to the Riksbank's calculations in December, but also here, the negative development in 2013 was changed to growth of 4.7 per cent in 2014. Household consumption has resisted the weak international development well in recent years and increased by 2.4 per cent in 2014, according to the Riksbank's estimates, which was slightly more than in 2013. Unemployment in recent years has fluctuated around 8 per cent (see Chart 8). On average, it amounted to 7.9 per cent in 2014, which was largely the same level as in 2013. The trend of recent years' labour market development continued: the number of people in the labour force increased at the same time as the number of people employed also increased, which meant that unemployment remained

largely unchanged (see Chart 8).

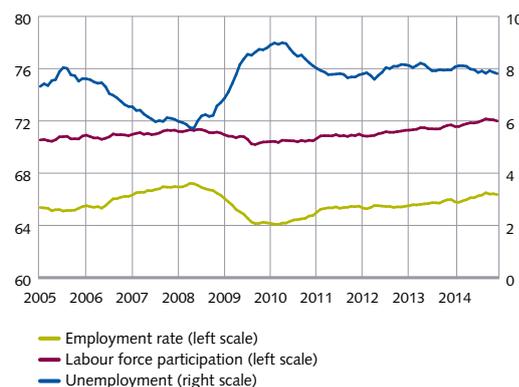
A measure of resource utilisation is often used as an overall measure of the economic situation in the real economy. However, there is no clear-cut way to measure this, and therefore the Riksbank uses a number of different indicators to assess resource utilisation. Examples of such measurements are the GDP gap and the hours worked gap, which measure the percentage deviations of GDP and the number of hours worked from their respective estimated sustainable long-term levels. If each measure is positive, this means that the level of activity in the economy is high and that resource utilisation in the economy is higher than normal. The opposite applies when the measurements are negative. According to the GDP gap, resource utilisation was lower than normal in 2014. However, the hours worked gap indicated that resource utilisation was closer to a normal level than the GDP gap (see Chart 9).

The Riksbank's own indicator of resource utilisation, the so-called RU indicator, summarises information from surveys and labour market data with the assistance of a statistical method. This indicator also shows that resource utilisation was lower than normal in 2014 (see Chart 9).

All in all, the Riksbank's assessment is that resource utilisation in Sweden was slightly lower than normal over the year.

Chart 8

Participation in the labour force and employment rate as a percentage of the Swedish population and unemployment as a percentage of the Swedish labour force



Note. Seasonally-adjusted data. Three-month moving average. This data refers to persons aged 15–74.
 Sources: Statistics Sweden and the Riksbank.

Continued focus on financial 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.

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

The Riksbank itself compiles and publishes daily turnover statistics on the fixed-income and foreign exchange markets from the Riksbank's and Swedish National Debt Office's counterparties. In addition, interest rates and exchange rates are compiled and published on the Riksbank website on a daily basis. The Riksbank also conducts and publishes a business survey three times a year with the aim of obtaining detailed information on how companies perceive the current economic situation.

Experiences from the financial crisis have led to a greater need for coordination and the sharing of financial statistics between different authorities. On 1 August 2014, a law entered into force meaning that a special database for the collection and processing of financial statistics would be established by Statistics Sweden. This law would give the Riksbank and

Finansinspektionen the possibility of accessing each other's data and thereby coordinate and streamline the production of statistics. During the year, the Riksbank and Finansinspektionen planned together how the new database would be realised in a purely practical manner.

As part of the work of strengthening financial statistics, during the year, the Riksbank conducted two inquiries into the conditions for setting up a database of companies' credit and a database of securities holdings. These databases will contain detailed information on corporate loans and securities. Such information, loan-by-loan and security-by-security, forms an important basis for the Riksbank to deepen its analyses in the areas of monetary policy and financial stability.

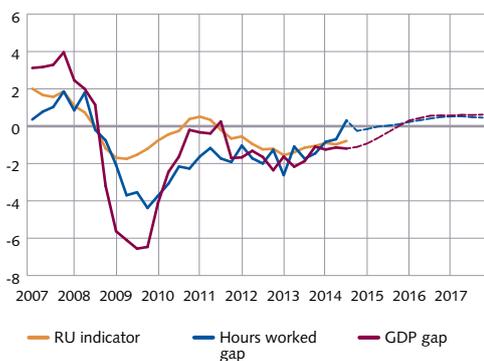
Under the framework of international statistical cooperation, the Riksbank implemented a series of changes over the year. The financial market statistics reported every month by banks, mortgage institutions and other monetary financial institutions were updated. The background to this update was partly to meet new needs among users and partly to adjust the contents to the new national accounts system (the European System of National and Regional Accounts or ESA 2010) that entered into force during the year.

In the work of the Bank for International Settlements (BIS), several details have started to be collected on the banks' foreign assets and liabilities. In the European System of Central Banks (ESCB), work is underway on expanding statistics on insurance companies and seeing how these can best be coordinated with the upcoming EU Solvency II Directive on the supervision of insurance companies.

In 2014, work also continued on preparing the adjustment of balance of payments statistics to the International Monetary Fund's (IMF) sixth manual specifying international standards for balance of payments statistics. The first publication in Sweden under the new standard took place in December 2014.

Over the year, the IMF assessed the conditions for Sweden's participation in the IMF's extended international statistics standard (Special Data Dissemination Standard or SDDS Plus). The assessment led the IMF to announce in November 2014 that Sweden officially became one of the first countries in the world to accede to the extended statistics standard. The Riksbank, which has been coordinator with responsibility for the SDDS in Sweden since 1996, handed over responsibility for this task to Statistics Sweden on 1 January 2015.

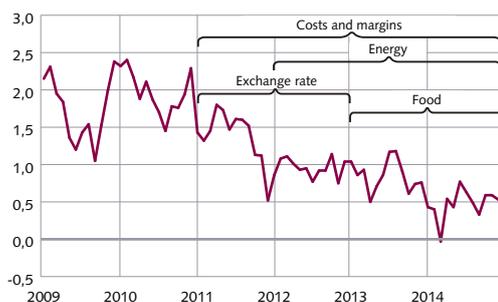
Chart 9

GDP gap, hours gap and RU indicator, per cent and standard deviation

Note. The GDP gap refers to the deviation from trend in GDP, calculated using a production function. 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 RU indicator is normalised so that the mean value is 0 and the standard deviation is 1. The broken lines represent the Riksbank's forecast from December 2014.

Sources: Statistics Sweden and the Riksbank.

Chart 10

The CPIX and the most important explanatory factors for the low inflation in Sweden, annual percentage change

Note. The CPIX is the CPI with a fixed mortgage rate.

Sources: Statistics Sweden and the Riksbank.

MONETARY POLICY ANALYSIS

Over the year, the Riksbank continued to develop the monetary policy analysis. Among other things, the link between companies' price-setting behaviour and low inflation as well as the manner in which macroprudential policy measures can affect the macroeconomy were analysed in more depth.

Companies' price-setting behaviour

The rate of price increase in the economy is ultimately the overall result of the pricing decisions made by the individual companies. Information on how the companies reason when setting prices and on the main driving forces behind their decisions is therefore valuable. However, the aggregate statistics often fail to provide such information. To obtain a better view of what steers companies when they set their prices, the Riksbank has commissioned a comprehensive questionnaire survey among Swedish companies. A total of 895 companies in the retail trade, construction industry and various services industries, such as hotels and restaurants, responded to questions about prices, costs and profit margins. The survey was conducted by the National Institute of Economic Research on behalf of the Riksbank in early summer 2014. It forms a complement to the comprehensive analysis the Riksbank continually conducts of the development of prices.

The Riksbank's previous internal analyses have revealed that several factors have contributed towards the recent years' low inflation, albeit at different points in time (see Chart 10). A lower rate of increase in energy prices has had a downward effect on inflation since 2012. A stronger exchange rate contributed to low inflation during 2011–2012, but not in 2013, while a low rate of increase in food prices has contributed to the low inflation since 2013. In addition, one important partial explanation of the low inflation in recent years is that companies – due to the weak demand situation and other factors – have faced difficulties in passing their increased costs on to consumers and that their price mark-ups have therefore been lower than normal.

The questionnaire survey confirms the difficulties that companies have had passing cost increases along to consumers in the form of price increases. According to the companies, it had been difficult to raise prices because demand was weak and hard to predict. It is thus reasonable to expect that prices will begin rising faster when economic activity strengthens and demand increases. At the same time, the responding companies stated that competition had clearly increased in recent years, which could indicate that the low price mark-ups are partly due to structural reasons.

The results of the survey also showed that larger companies have been more successful than smaller companies in pushing down their costs and thereby maintaining their margins.

Macroeconomic effects of macroprudential measures

The Riksbank has to consider the decisions taken within the Swedish framework for macroprudential policy, if it is to be able to carry out both its policy tasks: maintaining price stability and promoting a safe and efficient payment system. The opening discussions in the newly-established Financial Stability Council mainly dealt with stricter capital requirements for the major Swedish banks. In the first half of 2014, the Riksbank analysed the effects this could have on the macroeconomy.

In May 2014, Finansinspektionen announced it would introduce stricter capital requirements for Swedish banks. These involved raising the risk-weight floor for Swedish mortgages from 15 to 25 per cent and introducing a countercyclical capital

buffer of 1 per cent of Swedish risk-weighted assets. As an average for the major Swedish banks, the raising of the risk-weight floor corresponds to an extra CET1 capital requirement of about 1 percentage point of total risk-weighted assets, while the countercyclical capital buffer stands for another 0.5 percentage points.

The main purpose of the stricter capital requirements is to strengthen the resilience of the banking system. In this way, the risk of household debt ultimately leading to problems in the Swedish banks that might have serious consequences for the macroeconomy is reduced. But the higher capital requirements also entail higher costs for the banks' lending which ultimately may mean higher lending rates, reduced loan volumes and lower GDP. The effects on lending to households can be regarded as a positive side-effect, as they can contribute to dampening household indebtedness, while the short-term effects in the form of lower GDP can be regarded as a macroeconomic cost. Consequently, these measures need to be analysed from both a financial stability perspective and a macroeconomic perspective.

The Riksbank's analysis showed that the effects on GDP, lending rates and lending volumes are relatively small, taken as a whole. The conclusion was that the primary effect of the stricter capital requirements presented by Finansinspektionen is to strengthen the resilience of the Swedish banking system. To have a more tangible effect on households' indebtedness, measures need to be introduced that are directly aimed at households' demand for loans.

The Financial Stability Council's discussions in the second half of the year focused on various forms of loan ceilings for households and, in this context, amortisation requirements were the subject of most discussion (see also the section A safe and efficient payment system). The Riksbank analysed both implementation issues and the macroeconomic effects of an amortisation requirement.

The Riksbank's research

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. More specifically, the aim is to develop models and tools for use in 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 results of the Riksbank's research are published in international scholarly journals. This guarantees that the quality of the research is evaluated objectively in accordance with international standards. The research results are also communicated through presentations at other central banks and universities, as well as at international conferences. The research findings are summarised, when necessary, in the Riksbank's journal, *Sveriges Riksbank Economic Review*, and elsewhere.

At present, the Riksbank's researchers are conducting comprehensive studies of

Swedish companies and households with the aim of understanding their economic behaviour. The objective is to provide better foundations for the formulation of economic policy. In many cases, this research is based on micro data gathered from Swedish banks and credit-rating agencies, which makes possible in-depth analyses of areas that it has not been possible to study closely enough in the international literature due to a lack of data. Research results thus provide a foundation on which support and advice to the Riksbank's policy work can rest. In current issues, such as households' indebtedness and mortgage amortisation habits, empirical research can contribute towards the preparation of decision-making material.

The more macro-oriented research of the Research Division also makes clear contributions to the Riksbank's interpretation of a complex world. One example is an article under publication in the *Journal of Monetary Economics* that studies the significance of variation in mortgage rates for important macroeconomic variables such as private consumption, GDP, housing investments and the future development of housing prices. The study reveals the exist-

ence of significant effects and thereby indicates a need to understand the effects of monetary policy on mortgage rates.

In June 2014, the Research Division organised a week-long course in modern monetary economics under the leadership of Professor Randall Wright of the University of Wisconsin–Madison. Randall Wright has made contributions in many areas, but is perhaps best known for search and matching models in monetary economics. The course dealt with important subjects within monetary theory, such as models aimed at explaining why individuals use money, allocation mechanisms within monetary theory and how numerical methods can be used in search models to shed light on the welfare effects of inflation. Participants came from the Riksbank and postgraduate studies at Uppsala and Stockholm Universities, as well as the Stockholm School of Economics.

The above initiative reflects the Riksbank's willingness to interact with the academic world to learn and to secure a future supply of knowledge by interesting students and researchers in the Riksbank's policy areas. The Research Division is thus an important link between the Riksbank and the university world.

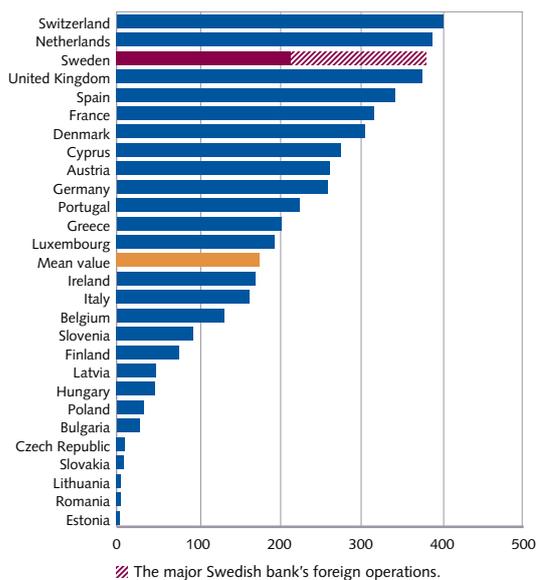
A safe and efficient payment system

The financial system in Sweden functioned well in 2014. However, Swedish households' indebtedness and weak international growth remained risks that could threaten financial stability. The Riksbank continued its work on influencing the financial regulatory framework in national and international forums. In addition, the Riksbank continued to deepen its analyses of important stability issues.

The financial infrastructure in Sweden is deemed to be safe and efficient to a great extent. The Riksbank's targets for the RIX payment system were also met during the year. Within the area of cash provision, preparations continued for the changeover of banknotes and coins to start in 2015.

Chart 11

The banks' assets in relation to GDP in december 2013, per cent



Note. In banking assets are included all of the assets of the national banking groups, that is both foreign and domestic assets. The shaded part of the red bar shows the four major banks' assets abroad in relation to Sweden's GDP.

Sources: The ECB, the European Commission, the Swiss National Bank and the Riksbank.

FINANCIAL STABILITY

Among other things, the Riksbank's financial stability work in 2014 consisted of monitoring developments abroad and in Sweden so as to analyse any risks that may be accumulating in the financial system and threatening its stability. This concerned risks linked to Swedish households' indebtedness and risks linked to the low interest rate situation in Sweden and abroad. The Riksbank also proposed measures to reduce these risks. During the year, the Financial Stability Council was established, in which the Riksbank participated in discussions of issues related to financial stability and macroprudential policy.

Otherwise, work continued on influencing the formulation and implementation of national and international financial regulations. As part of this, the Riksbank participated in international work and also submitted several consultation responses over the year, including a report on how banks in crisis should be managed. The Riksbank also continued to deepen its analysis of important issues and to further develop methods for its work on financial stability.

Assessment of financial stability

The Riksbank assessed that the Swedish financial system functioned well in 2014 despite the deteriorating global growth prospects and the slight increase of unease on the financial markets in the second six months of the year. Among other things, financial stability in Sweden has benefited from the Swedish banks' high profitability, low loan losses and good access to cheap funding. The financial infrastructure in Sweden is also deemed to be safe and efficient to a great extent.

However, the Riksbank deemed that there were vulnerabilities in the structure of the Swedish banking system that make it vulnerable to shocks, for example the large size of the Swedish banking system in relation to the Swedish economy (see Chart 11) and its concentration on a small number of closely interdependent participants.

The major banks' dependence on foreign wholesale funding (see Chart 12) further increases their vulnerability as it means that the banks are sensitive both to shocks on the international financial markets and to any deterioration of confidence in the Swedish banking system.

The Riksbank also pointed out that these vulnerabilities increased the risks linked to the long period of low interest rates, developments in Europe and Swedish households' high and increasing indebtedness.

An extended period of low interest rates may lead to an increase in risk-taking on the global financial markets

The Riksbank noted that recent years' expansive monetary policy in many parts of the world has helped support the development of the real economy. However, the Riksbank warned that an extended period of low interest rates could also lead to excessive risk-taking among financial participants, companies and households which, in turn, could lead to various types of asset becoming overvalued. Any disruptions leading to a sudden and sharp decrease in demand for these assets could then bring about significant price adjustments and increased volatility, with investors being forced to realise losses that they are unable to manage. Such a development in the global financial system could also impact financial stability in Sweden. Above all, this is because both access to and the price of the Swedish banks' wholesale funding could be affected negatively in a situation of increased stress.

Worsened development in Europe may impact financial stability

In Europe, it was assessed that there were two main risks that could have an effect on financial stability in the region in the near future. The first of these was linked to developments in Ukraine and Russia. Even if the Swedish banks have little direct exposure to these countries, they could be indirectly affected by the development of the financial markets and through the development of the real economy in the euro area. The second risk was linked to the development of the real economy in Europe and uncertainty over how certain countries are coping with the structural problems that continue to remain after the financial and sovereign debt crises. If these problems are not managed well enough, there is a risk that the development of the financial markets and real economies could be such that financial stability in Sweden would also be impacted negatively.

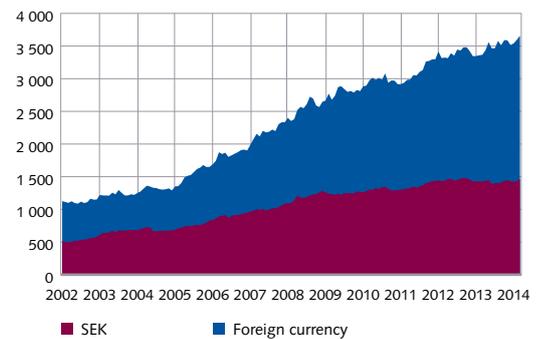
The high indebtedness of Swedish households may affect both real-economic and financial stability

The Riksbank assessed the high and growing indebtedness among Swedish households to be a risk that could threaten both real economic and financial stability in Sweden in the long run. The aggregate debt ratio, which is to say debts in relation to disposable incomes, was high from both historical (see Chart 1) and international perspectives (see Chart 13). This indebtedness entailed risks for both the real economy and the financial system.

Historical experience indicates that financial crises have often been preceded by rapid growth in credit and property prices. In the event that a shock occurs that affects, for example, household incomes, interest expenditure or the value of housing, household consumption may fall as a result of more households choosing to save and amortise their debts. The higher the debts are, the greater these effects may be. As a consequence, demand in the economy could be weakened, which, in turn, could impact the development of the real economy. It could also lead to an increase in loan losses on the banks' lending to companies. Financial stability could thus also be impacted. The Riksbank deemed that the direct loan losses on the banks' lending to households in this situation would be minor. On the other hand, confidence in the Swedish banking system could be worsened if housing prices were to fall, which could lead to the banks' funding becoming both more expensive and less accessible. Financial stability could also be affected directly as a result of this.

Chart 12

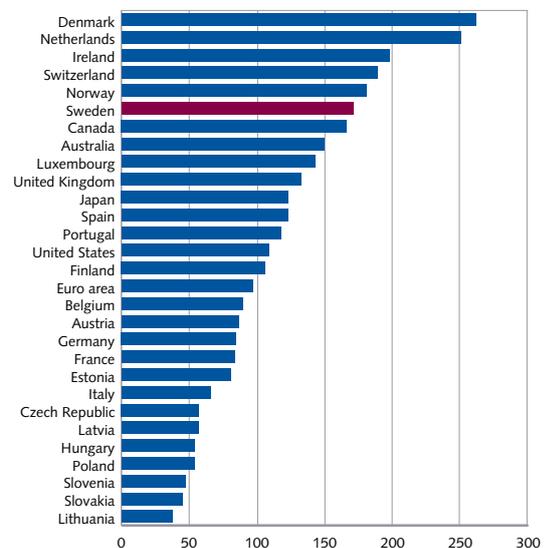
The major Swedish banks' wholesale funding via Swedish parent companies and subsidiaries, SEK billion



Sources: Statistics Sweden and the Riksbank.

Chart 13

Household debt ratio in various countries, per cent

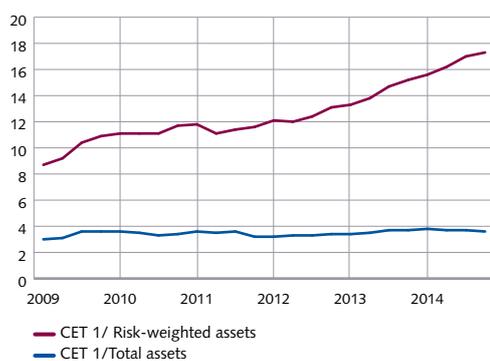


Note: Note that the data has been collected under different years for different countries. Australia, Denmark, Canada and the euro area are from 2013. Data for Japan and Switzerland are from 2011 and for Sweden from the second quarter 2014. Data for other countries are from 2012. Data for Australia, Canada, Japan, Switzerland and the United States come from either the OECD or national statistics agencies. Data for other countries come from Eurostat. In Eurostat's data, the debt ratio in Sweden amounts to 150 per cent for 2013.

Sources: Eurostat, OECD, the Riksbank and national statistics agencies.

Chart 14

The major Swedish banks' Core Tier 1 capital ratios and Core Tier 1 capital in relation to total assets, per cent



Sources: Banks' reports.

The Riksbank's recommendations

In recent years, several measures have been adopted to increase the resilience of the Swedish financial system and reduce the risks that may threaten financial stability. But, as many risks still remained, the Riksbank considered that further measures were needed. The Riksbank therefore presented a number of new recommendations.

In the spring of 2014, the Riksbank considered that Finansinspektionen should ensure the introduction of sound minimum levels for the standard values used in discretionary income calculations, which form part of the credit assessment of households. The difference between the banks' standard values is wide. This means that the banks' assessments of borrowers' economic margins and thus their ability to bear debt could differ from bank to bank. Setting sound minimum levels for standard values could contribute towards counteracting, over the long term, the risks related to high debts in the household sector.

The Riksbank also recommended Finansinspektionen to start applying the countercyclical capital buffer as soon as possible in order to increase the resilience of the banks and to initially set the buffer level at 2.5 per cent. Furthermore, the Riksbank recommended Finansinspektionen to extend requirements for Liquidity Coverage Ratios (LCR) to also cover Swedish kronor. The requirement should be set at 60 per cent.

In autumn 2014, the Riksbank recommended Finansinspektionen to introduce an amortisation requirement for new mortgages to counteract the risks inherent in Swedish households' high and increasing indebtedness. The Riksbank considered that the requirement should be introduced as a general guideline and that it was important to frequently assess the effects of the requirement on household indebtedness. The Riksbank also pointed out that the requirement needed to be complemented by further measures to dampen household demand for credit, as it was likely that the requirement alone would not have a sufficient effect on households' debt ratios. These measures, which need to be introduced gradually over a longer period, may affect several policy areas.

The Riksbank also recommended Finansinspektionen to introduce a leverage ratio requirement for the major Swedish banks. The Riksbank considered that the banks' leverage ratios should amount to 4 per cent from January 2016 and to 5 per cent from January 2018. An analysis of recent years' developments shows that Swedish banks' Core Tier 1 capital has increased in relation to risk-weighted assets, while remaining largely unchanged in relation to total assets (see Chart 14). A leverage ratio requirement manages the risk that the banks' risk weights do not satisfactorily reflect the actual risk and therefore forms an important complement to existing capital requirements. The requirement may also reduce the risk of an unsound growth in lending by setting a limit for how much the banks can expand their balance sheets without also increasing capital. A leverage ratio requirement could thereby increase the resilience of the Swedish banking system.

International work to strengthen the financial system

Swedish banks and financial institutions are regulated by laws based on regulations that are largely formed on a global level, primarily by the Basel Committee and the global Financial Stability Board (FSB). An important part of the Riksbank's work on financial stability is therefore participating in various international forums to influence the formulation of financial regulations and financial supervision. The Riksbank participated in discussions and decision on the formulation of both regulatory frameworks and supervision on both EU and international levels, for example in the Basel Committee, the FSB and the Bank for International Settlements (BIS).

International cooperation

During the year, the Basel Committee completed the main parts of the so-called Basel III packet of banking regulations. The Riksbank participated actively in this work, not least through Governor of the Riksbank Stefan Ingves' chairmanship of the Basel Committee. In 2014, an agreement was reached on the Net Stable Funding Ratio (NSFR) and the definition of the leverage ratio. In addition, the Basel Committee continued to work over the year on developing new standards, including for banks' exposures in the trading book, for standard models for credit risk, for interest rate risks in the banking book, for the floor for capital adequacy and for the publication of information. In all these areas, the Riksbank actively participated in the drafting of regulations that will eventually become binding for Swedish banks.

In the CPMI (Committee on Payments and Market Infrastructures, formerly the CPSS), the work on evaluating member countries' implementation of the new global requirements for companies in the financial infrastructure, the so-called Principles for Financial Market Infrastructures (PFMI), which were published in April 2012. The Riksbank actively participated in this work. The evaluation was made in several different stages. In 2014, it was investigated whether member states have implemented the PFMI via legislation or another appropriate manner, and whether this implementation has been conducted in accordance with the PFMI.

The Riksbank also participated in the work of the FSB. Sweden is not a member of the FSB, but participates in a number of the FSB's sub-groups and in the FSB's regional consultation group for Europe. However, Governor Stefan Ingves participated in the FSB's meetings as part of his role as chairman of the Basel Committee. Based on the FSB's recommendations for global systemically-important institutions, the work continued on a crisis management plan for the Nordea banking group. Apart from the Swedish home authorities, which is to say the Ministry of Finance, Finansinspektionen, the Swedish National Debt Office and the Riksbank, this cooperation also included relevant authorities from Denmark, Estonia, Finland, Latvia, Lithuania and Norway.

European cooperation

In the EU Economic and Financial Committee (EFC) in 2014, the Riksbank pushed for the proposed reforms designed to stimulate long-term investments within the EU to be formulated so that they do not dilute the regulations or have a negative effect on financial stability. The Riksbank also emphasised the importance of carrying out an asset quality review of the banks and a stress test within the EU. As regards the evaluations of the EU's supervisory structure, the Riksbank emphasised the importance of maintaining a broad representation in the General Board of the European Systemic Risk Board (ESRB). The Riksbank considered that this broad representation is one of the ESRB's main strengths, which makes the ESRB into a unique forum. Furthermore, the Riksbank welcomed the European Commission's proposals both for the improved exchange of information between the ESRB and the EFC and for more proactive ESRB communication.

Under the framework of the ESRB, the Riksbank contributed actively in the work of identifying systemic risks within the EU and producing recommendations to reduce these risks. During the year, the ESRB published a recommendation with guidelines for how countercyclical buffer rates should be adopted in the EU member states. The objective is to protect the banking system in the EU from potential losses related to risks varying with the financial cycle.



The top floor is used for socialising by employees.

From left: Emelie Mannefred, Ulf Grahn and Hanna Köhler.

The Riksbank was also a driving force behind the ESRB's work on the formulation of macroprudential policy on the national level. The background to this is the EU's new capital adequacy regulations (CRD IV/CRR), which entered into force on 1 January 2014. These regulations give the member states the possibility of using a number of new macroprudential policy instruments. This work resulted in two reports published at the start of the year. One report is a comprehensive handbook targeted at national macroprudential authorities including concrete guidance on how various macroprudential policy tools can be used. The other report gives a more overall description of how different macroprudential policy instruments can be used.

The Riksbank also actively participated in the evaluations of how well governments and authorities in the member states were complying with the ESRB's first two recommendations. The recommendation on lending in foreign currency was evaluated at the end of 2013 and the recommendation on national authorities' mandate for macroprudential policy was followed up at the start of 2014. Furthermore, the Riksbank actively contributed towards the ESRB's work of surveying the risks in the shadow banking sector, and a report on this area was published in September 2014.

Nordic-Baltic cooperation

During the year, the Riksbank continued with the Nordic and Baltic cooperation in the field of financial stability. In 2014, two meetings were held with the Nordic-Baltic Macroprudential Forum (NBMF). The NBMF is a cooperation forum for central banks and supervisory authorities in the Nordic and Baltic countries, which focuses on financial stability risks and cross-border banking operations in the region. In addition to general risks that could affect the region, the group continued to discuss matters including how authorities can mutually recognise each other's macroprudential policy measures (reciprocity). A meeting was held in Stockholm in the autumn, at which Governor Stefan Ingves was chairman. The Riksbank also continued its work within the Nordic-Baltic Stability Group (NBSG), which is a forum for ministries of finance, central banks and financial supervisory authorities in the Nordic and Baltic countries. The stability group has the task of strengthening preparedness for the management of cross-border financial stability issues in the Nordic-Baltic region.

National work to strengthen the financial system

On the national level, the Riksbank participated in the discussions of the Financial Stability Council. The Riksbank also participated in the supervisory college for Nasdaq OMX Clearing AB. In addition, the Riksbank presented its views on the EU directive on managing banks in crisis and how this should be implemented in Swedish legislation.

The Financial Stability Council

The Financial Stability Council met three times in 2014. At the Council's first meeting in February, the Ministry of Finance, Finansinspektionen, the Swedish National Debt Office and the Riksbank noted that there was a need to adopt further measures to strengthen financial stability. These measures could be aimed at the banks' dependence on wholesale funding in foreign currency, their relatively low leverage ratios and households' indebtedness, which is continuing to rise.

At the Council's second meeting in May, discussions continued on the current stability situation and the risks threatening financial stability. At the meeting, the Riksbank observed that the increase in the banks' capital was a step in the right direction, but that the capital levels in the Swedish banking system should be

International commitments

Apart from the international and European cooperation in various regulatory issues, the Riksbank also had other international commitments.

International Monetary Fund (IMF)

The Riksbank's IMF work includes developing Sweden's position on policy issues in cooperation with the Ministry of Finance ahead of discussions in and decisions by the IMF's Executive Board. Among other issues, the matter of how the IMF carries out the surveillance of its member countries in the review conducted every third year (Triennial Surveillance Review) was discussed in 2014. The Riksbank has requested the IMF to strengthen its surveillance of the financial sector, to examine the cross-border effects of member countries' policies in more depth, and to carefully follow up the advice given.

The Riksbank contributes to the IMF's funding through capital contributions and Special Drawing Rights. Among other things, the Riksbank takes part in the

IMF's new arrangement to borrow (NAB) which is activated when necessary if the demand for loans from the Fund becomes so great that the capital contribution is not considered sufficient. In 2014, the members of the NAB decided to renew the activation of the arrangement to borrow on two occasions. The Riksbank has also effected a temporary agreement to provide loans to the IMF, which was approved by the Riksdag in 2012. The agreement gives the IMF the opportunity to borrow the equivalent of about SEK 70 billion from the Riksbank if the Fund's capital contributions and NAB should be insufficient. The agreement includes the possibility of extending the loan by one year, which the IMF requested in the summer of 2014 and the Executive Board of the Riksbank supported at its meeting on 21 August. The Riksbank's transactions with the IMF are described in the section "Asset management".

The IMF visited Sweden in May 2014 for the annual Article IV Consultation, at which the Swedish economy is discussed

with various authorities and the implemented policy is evaluated.

Together with the IMF, the Riksbank also arranged a conference on macroprudential policy in Stockholm on 13–14 November. Its aim was to exchange experiences between different countries and international organisations as regards this emerging policy area. The matters discussed included which indications could provide warning signals on the accumulation of financial imbalances, how monetary policy and macroprudential policy should interact and how effective various macroprudential policy instruments are deemed to be.

Technical assistance

The Riksbank also provides expert assistance in central banks issues, so-called technical assistance. In 2014, this included contributions in Albania, Kenya, Malawi, Namibia, Palestine, Uganda and Vietnam. The activities were financed by funds from the Swedish International Development Cooperation Agency, Sida.

increased further. The Riksbank therefore wished to investigate whether it was necessary to bring forward the introduction of the leverage ratio requirement for the Swedish banks as a complement to the risk-weighted capital requirements. The Riksbank also wanted to see a larger countercyclical capital buffer than Finansinspektionen to strengthen the banks' resilience to the imbalances accumulating due to households' indebtedness. In addition to this, the Riksbank considered that further measures were needed to manage households' high and increasing indebtedness, such as an improved amortisation culture. The Riksbank also expressed unease over the manner in which a borrower's financial scope according to discretionary income calculations differs from bank to bank. In addition, setting the standard values too low can lead, in the event of a shock, to a mortgage being a greater burden for the household than the discretionary income calculation suggests. The Riksbank also advocated a special requirement for the liquidity coverage ratio (LCR) in Swedish kronor for the Swedish banks.

At the Council's third meeting in November, the Council's members noted that, even if the resilience of the Swedish financial sector was deemed to be good, there was a shared unease – albeit to somewhat varying degrees – over the high and rising indebtedness in the household sector. The Riksbank contributed a report on the macroeconomic effects of an amortisation requirement to the meeting, and this was also published. This analysis was drawn up by the Financial Stability Department and Monetary Policy Department (see also the section "Maintaining the value of money – price stability"). At the meeting, Finansinspektionen presented a proposed amortisation requirement. The

Riksbank considered that Finansinspektionen's proposal on how households' amortisation behaviour could be strengthened was a step in the right direction but that more measures would be necessary to manage the problem of indebtedness. The Riksbank also pointed out that, despite the high risk-weighted capital adequacy, the Swedish banks' leverage ratio is low from both historical and European perspectives. The Riksbank therefore considered that the Swedish banks should be subject to a leverage ratio requirement of 5 per cent, which is higher than the minimum requirement of 3 per cent. The Riksbank considered that this requirement should be introduced gradually between 2016 and 2018.

The Riksbank's participation in a supervisory college

Since 2014, the Riksbank has participated in the supervisory college for Nasdaq OMX Clearing AB, the Swedish counterparty for derivatives. The existence of a supervisory college for Nasdaq OMX Clearing AB is required by Emir, the European legislation that regulates central counterparties in the EU, among other things. The supervisory college has the task of submitting opinions in authorisation procedures, but also has ongoing supervisory duties such as the exchange of information, the coordination of supervisory reviews and the preparation of contingency plans for crisis situations. The Riksbank's participation in the supervisory college for Nasdaq OMX Clearing AB is a statutory requirement under Emir.

The Riksbank's consultation response to the Financial Crisis Commission

In a consultation response, the Riksbank provided its opinions on the final report "Resolution – a new method of managing banks in crisis (2014:52)" from the Financial Crisis Commission (FCC). The final report was a further development of the interim report that the Commission submitted in 2013, and which the Riksbank also commented on in a consultation response the same year. The Riksbank welcomed the FCC's proposals in the final report. The Commission's assessments were largely shared by the Riksbank (for all positions in the consultation response, see www.riksbank.se). However, for parts of the FCC's proposal, the Riksbank suggested clarifications or alternative solutions. One example of an alternative solution that the Riksbank highlighted was for the Riksbank to be involved at an early stage of the preparation of a solution. The Riksbank also proposed having certain issues investigated separately, such as the conditions for the resolution of financial infrastructure.

Deepened analysis of the financial system

In addition to participating in the current national and international work of formulating financial regulations, the Riksbank continued to deepen the analysis of the financial system in Sweden. Over the year, this involved gaining a better view of Swedish households' debts, studying the development of the payment market, analysing the effects and consequences of the new regulations that have been implemented or will be implemented in Swedish legislation as a result of the international crisis, and other analyses.

Structural changes in the financial system

Over the year, the Riksbank continued to study the structural changes faced by the Swedish financial system as a result of new and approaching regulations and the ways in which financial stability may be affected by these changes. Under the framework of this project, the Riksbank published a number of studies in 2014. These studies dealt with issues linked to securitisation, instruments for debt write-downs, the shadow banking sector and funding of non-financial companies.

The Riksbank's compilation of new data material to obtain a better view of household debt

In 2013, the Riksbank compiled data on households' credits from the eight largest credit institutions to obtain a more complete view of household indebtedness. In 2014, this data was updated. Analyses of the data material, which was presented in the Economic Commentary "How indebted are the Swedish households?" and elsewhere, showed that the debt ratio is high, regardless of whether indebted individuals, indebted households or individuals and households with mortgages are examined. For example, the average debt ratio in July 2014 was over 300 per cent for indebted households with mortgages. For new mortgage holders, the debt ratio was over 350 per cent. In addition, the average debt ratio for households with mortgages increased between 2013 and 2014.

For households with mortgages, the analysis also showed that the average debt ratio was over 400 per cent in metropolitan municipalities and just above 300 per cent in the rest of the country. The statistics also showed that four out of ten borrowers are not reducing their debts, and that those who are reducing them are doing so very slowly.

The Riksbank's analysis of the risks of virtual currencies

Over the year, the Riksbank monitored and analysed the development of virtual currencies. Virtual currencies come in many forms and are most often intended to be used for on-line payments. One example of a virtual currency is Bitcoin. The overall conclusions of the Riksbank's analysis were that virtual currencies were only used to a limited extent and that they had no effect on the efficiency and security of the Swedish payment system.

The Riksbank's work on the payment market

As part of its work on financial stability, the Riksbank surveys current trends and innovations on the payment market. Over the year, the Riksbank carried out two studies aimed at obtaining better knowledge and understanding of the state of the payment market. One study was a questionnaire survey on the payment habits of the Swedish people. The other study was a survey of the market for payments, access to payment services and the shortcomings existing in the market at present. The results of both studies showed that access to payment services is generally good. However, one of the studies revealed the existence of vulnerable groups who need help and education, and that certain functions and standards for payments need to be improved. The rapid development of the payment market also justifies a clearer division of responsibility between different authorities.

The Riksbank's monitoring of the functioning of the Stibor framework

In 2011 and 2012, the Riksbank conducted a comprehensive investigation into the Stibor reference rate. This investigation revealed a number of deficiencies in the Stibor framework and consequently, in November 2012, the Riksbank issued recommendations on Stibor to the banks in the Swedish banking system. The recommended measures have since been adopted. In conjunction with the recommendations, the Riksbank undertook to produce a new assessment of Stibor in 2014 in order to follow up the reform work and review the functioning of the framework surrounding Stibor. Among other results, the Riksbank's review showed that Stibor had been true and fair since the new framework entered into force. This means that, on average, the reference rate has corresponded with the interest rates used in actual transactions for the maturities it has been possible to compare.

External evaluation of the Financial Stability Department

In light of the Riksbank's organisational changes and the fact that Finansinspektionen was appointed as authority for macroprudential policy in 2013, an external committee was appointed during the year with the assignment of evaluating the Riksbank's Financial Stability Department. This group consisted of researchers from foreign universities and three former central bank researchers. The committee was given the mandate of reflecting over the Riksbank's role in financial stability work and evaluating the quality of the work conducted by the department. The committee considered that the department's work was of high quality. It also made recommendations for how this work could be improved: among other things, more resources should be devoted to analysis for policy work and the cooperation between the Financial Stability Department and the Monetary Policy Department should be strengthened. Furthermore, the Committee recommended that a central database be created at the Riksbank in which data can be stored regardless of where in the bank it is used, and that the work on the financial infrastructure be incorporated more into the department's other activities.



Stairs from the Riksbank's dining hall, leading up to the top floor.

Follow-up

The Swedish financial system functioned well in 2014 and was able to uphold its functions. The financial markets in Sweden and abroad showed low levels of financial stress. Risk premiums on several markets were historically low despite the increased geopolitical unease and the subdued economic recovery in both the euro area and Sweden.

The Swedish banks' good profitability, low loan losses and relatively high CET 1 capital ratios meant that they had good access to wholesale funding at a low cost. The Swedish banks therefore did not have any problems providing households and companies with credit. Lending to households, in particular lending for housing purchases, continued to increase over the year. Lending to companies also increased, but at a lower rate. The financial infrastructure was secure and efficient, but its efficiency could be strengthened further through improvements both in individual systems' operations and in Swedish legislation.

During the year, Finansinspektionen raised the risk-weight floor for Swedish mortgages to 25 per cent, as the Riksbank had also recommended. The major Swedish banks also fulfilled the recommendation for a CET 1 capital relation of at least 12 per cent. As previously, the Riksbank deemed that the liquidity risks in the major banks were still large, as the Net Stable Funding Ratio (NSFR) was still under 100 per cent. In addition, the major banks' public reporting had not improved to the extent recommended by the Riksbank. One of the four banks had not reported its leverage ratio, two of four major banks had not reported their NSFRRs and three of four major banks had not reported their liquidity coverage ratios (LCRs).

THE RIX PAYMENT SYSTEM

The RIX payment system is a system for large-value payments in Swedish kronor. Payments are made in the form of transfers between accounts held by the different participants – banks, clearing organisations etc. – with the Riksbank. For RIX to function in a safe and efficient manner it requires sufficient credit limits among the participants, well-functioning collateral management and well-functioning technical systems.

RIX participants, transactions and turnover

During 2014, two new participants joined RIX, meaning that at year-end there were a total of 27 participants in the system.

On average, RIX handled 16 362 transactions per day in 2014. This is an increase of 7 per cent compared with the previous year. The average transaction amounted to around SEK 29 million.

The average daily turnover was around SEK 432 billion. This implies an increase of 6 per cent compared with the previous year.

Credit limits and collateral management

To reduce the risk of being unable to implement transfers through the RIX system because of participants' lack of 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. This collateral mainly consists of Swedish and foreign securities but may also be foreign currency.

Swedish securities transactions are settled in special accounts provided by the Riksbank. To facilitate the settlement of securities transactions, the Riksbank

also provides credit during the day. Euroclear Sweden, the Swedish central securities depository, manages these accounts and credits on behalf of the Riksbank.

On average, the RIX participants had a credit facility of around SEK 161 billion during the year, which is an increase of around SEK 18 billion compared with the previous year. This credit facility was equivalent to the value of collateral which was pledged by the participants to the Riksbank and which was 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 65 per cent of this credit facility. At the close of 2014, covered bonds comprised 76 per cent of the value of all collateral pledged to the Riksbank (see Chart 15).

In the autumn of 2012, the Riksbank decided on new principles for collateral for credit in the Riksbank. The new principles started to enter into force in April 2013, with certain transitional regulations, and became fully applicable in 2014. As of 2014, so-called Asset-Backed Securities will no longer be accepted. Furthermore, the possibility of using own covered bonds and high-yield securities was limited as of July 2014 so that these may amount to no more than 40 per cent of total securities.

Upgrades and improvements of technical systems

In spring 2014, the Riksbank decided to award the Indian company Polaris Financial Technology Limited the contract to supply the Riksbank's new system for collateral management. The work of introducing this new system has started and it is expected to come into use in the first quarter of 2016.

Work on upgrading the technical system of RIX started in 2014. The upgrade is expected to be put into operation during the second quarter of 2015.

Ensuring that RIX can continue to fulfil its role even in the event of a technical system failure requires efficient contingency routines. In 2014, the Riksbank carried out several contingency routine exercises, both independently and together with participants. The Riksbank also participated actively in the cooperation on continuity issues existing in the financial sector under the framework of FSPOS, a group for private-public cooperation in the financial sector, and in an exercise arranged by FSPOS. In addition, for a few years now, the Riksbank has inquired into the need and the alternatives for more comprehensive solutions to offer the RIX participants access to a functioning payment system even if operations at the Riksbank's normal site were to cease. This inquiry is expected to be concluded in 2015.

Follow-up

As RIX is a critical part of the Swedish financial system, requirements on the system are high. The Riksbank's targets for RIX payment system are deemed to have been met for 2014.

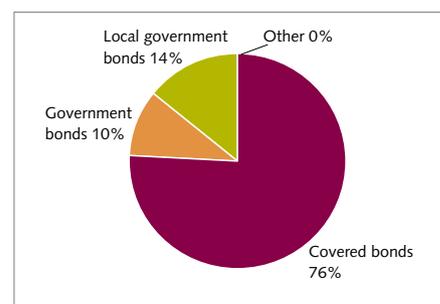
One of the targets is for the technical system to be accessible 99.85 per cent of the time it is open. It is important to avoid disruptions, as they can have severe consequences for the participants. The severity of these depends on the timing and length of the disruption.

There was one disruption affecting the availability of the system during the year. This disruption resulted in RIX being unable to settle transactions for 40 minutes. It was caused by a log-in fault in SWIFT, the system for message processing used by RIX. This fault has been rectified.

All in all, the disruption meant that RIX was available for 99.97 per cent of the time when payments were being handled, which means that the availability target was met. During the year, there were also 15 minor incidents in RIX that had limited consequences for the participants.

Chart 15

Collateral value pledged for credit in RIX, by security type

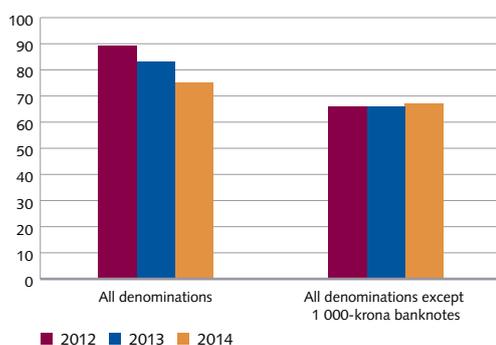


Note. The total value of collateral pledged for credit in RIX amounted to SEK 143 billion on 31 December 2014.

Source: The Riksbank.

Chart 16

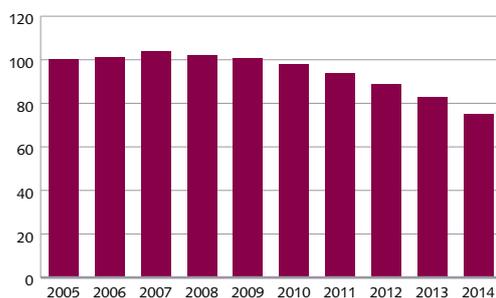
Average value of banknotes in circulation 2012–2014, SEK billion



Source: The Riksbank.

Chart 17

Average value of banknotes in circulation, SEK billion



Source: The Riksbank.

The Riksbank provides RIX under the principle that users cover all of the costs incurred by the Riksbank for the system. In this context, the Riksbank is also considered a user and must cover its costs. The requirement for full cost coverage is measured over a three year period, in which revenues are to correspond to 100 per cent of costs \pm 10 per cent. The cost of the operations for the year was SEK 57 million, 112 per cent of which was covered by fees. This means that operations in 2014 fully covered their costs. Over the three-year period 2012–2014, cost coverage was 114 per cent.

Another target the Riksbank has for RIX is customer satisfaction. The customer satisfaction requirement means that at least 80 per cent of customers, representing at least 70 per cent of payment volumes, are to be satisfied. No customer survey was carried out in 2014, as these are normally conducted every two years.

CASH PROVISION

In 2014, the Riksbank continued to provide banknotes and coins to the banks and to follow the development of the value of cash in circulation. The Riksbank also made preparations for the approaching banknote and coin changeover that will start in 2015 and progress until 2017.

Development in value of cash in circulation

The total value of cash in circulation was SEK 83 billion at year-end 2014 (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. It is therefore possible to describe with greater precision how much cash is in circulation throughout the year by calculating an average of the value of the cash on the final day of the month for the twelve months of the year. The average value amounted to SEK 80 billion in 2014.

The reduction between 2013 and 2014 was largely made up of 1 000-krona banknotes. However, the amount of banknotes of other denominations has remained at a relatively constant level over the last three years (see Chart 16).

The most common banknote denomination is the 500-krona banknote. It comprised 34 per cent of the total number of banknotes and accounted for 73 per cent of the average value of the banknotes in circulation, which amounted to SEK 75 billion in 2014 (see Chart 17). At the end of the year, the value of banknotes was SEK 78 billion (see Table 2).

The average value of the coins in circulation during the year amounted to SEK 5 billion (see Chart 18). At the end of the year, the value of coins was SEK 5 billion (see Table 2). The most common denomination of coin was the 1-krona coin. This coin accounted for 73 per cent of the total number of coins in circulation and for 27 per cent of the average value of coins in circulation during the year.

Table 2. Value of banknotes and coins in circulation, SEK billion

	2010	2011	2012	2013	2014
Total value on 31 December	105	100	96	86	83
Banknotes	100	95	91	80	78
Mynt	5	5	5	5	5
Total value, average during the year	103	99	94	88	80
Banknotes	98	94	89	83	75
Coins (excluding commemorative coins)	5	5	5	5	5

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

Source: The Riksbank.

Continued work on new banknotes and coins

In 2014, the Riksbank continued the work of preparing for the banknote and coin changeover which will start in 2015. The banknotes and coins will be replaced in two stages as recommended by the cash market agents. However, the present 10-krona coin will not be replaced.

In June, following a submission from the Riksbank, the Riksdag decided that the current 20-, 50-, and 1 000-krona banknotes will cease to be legal tender at the end of June 2016. The Riksdag also decided that the current 100- and 500-krona banknotes and 1-, 2- and 5-krona coins would cease to be legal tender at the end of June 2017.

The Riksbank opened the new office for banknote handling in 2014. The office, which lies in Sigtuna Municipality, has thereby replaced the Riksbank's previous offices in Mölnådal and Tumba. At the new office, the vast majority of banknote handling is automated.

Follow-up

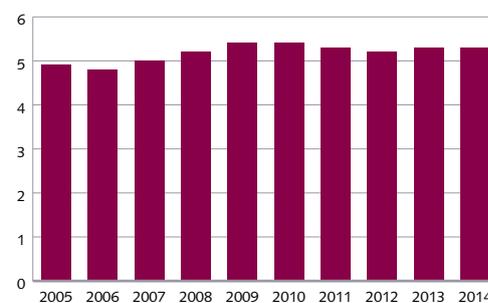
There was little counterfeiting of Swedish banknotes in 2014 (see Table 3). The value of counterfeit notes removed from circulation amounted to SEK 68 700, which is a decrease compared with 2013. The total number of counterfeit notes removed from circulation amounted to 246, which is fewer than in 2013. About half of the counterfeits were 20-krona banknotes.

The Riksbank receives regular updates on how the provision of cash in society is functioning from the Riksbank's Cash Handling Advisory Board and the working groups linked to the Board. The Board includes 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 2014. One issue addressed by the Board was the Government inquiry into cash handling, which submitted its report in the autumn. The inquiry's remit was to review the regulations for cash handling in Sweden and to survey and identify any deficiencies in the cash handling process. The inquiry proposed both that the Riksbank be given the overall responsibility for cash handling in Sweden and that new legislation be drafted to regulate counting services. Another issue discussed by the Cash Handling Advisory Board was the changeover of banknotes and coins.

The Riksbank deems that cash provision functioned well in 2014, that the quality of the banknotes was good and that confidence in banknotes and coins was high in Sweden. A survey of the Swedish people's payment patterns, conducted in 2014, shows that 95 per cent of those asked feel secure when they use cash. About as many, 94 per cent, consider that paying with cash is fast and easy.

Chart 18

Average value of coins in circulation, SEK billion



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

Source: The Riksbank.

Table 3. The number of banknotes and coins

	2010	2011	2012	2013	2014
Number of banknotes in circulation (millions)	351	343	336	334	325
Number of coins in circulation (millions)	2 248	1 989	1 889	1 911	1 918
Number of counterfeited banknotes	1 503	562	533	1 048	246

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

Source: The Riksbank.

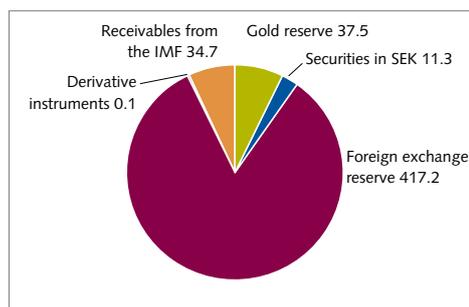
Asset management

Market rates for government securities fell in several countries during the year, which meant that the total value of the bond holdings in the foreign exchange reserve increased. In addition, the Swedish krona weakened on average against the currencies to which the foreign exchange reserve was exposed. This meant that the value of the gold and foreign exchange reserves increased further when expressed in Swedish kronor. The market value of the Riksbank's financial assets was SEK 500.8 billion at the end of 2014. The total return was SEK 31.5 billion, while return excluding exchange rate effects was SEK 9.8 billion.

The balance sheet total increased during the year by SEK 70.8 billion to SEK 502.4 billion. At the end of the year, the overwhelming majority of the Riksbank's assets, 97 per cent, consisted of the gold and foreign exchange reserves (including receivables from the IMF). The largest component on the balance sheet's liabilities' side (the Riksbank's liabilities and equity), 45 per cent, was made up of borrowing for the foreign exchange reserve from the Swedish National Debt Office.

Chart 19

The Riksbank's financial assets at the end of 2014, SEK billion

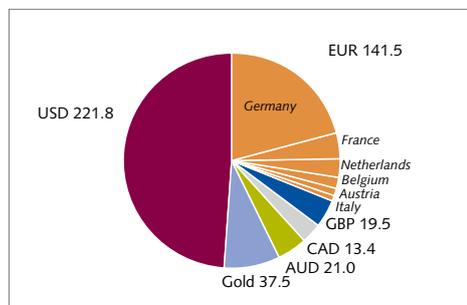


Note. The figures in the chart show the market value of the Riksbank's financial assets including accrued interest.

Source: The Riksbank.

Chart 20

Composition of the gold and foreign exchange reserves at the end of 2014, SEK billion



Note. The figures in the chart show the market value of the gold and foreign exchange reserves, including accrued interest.

Source: The Riksbank.

FINANCIAL ASSETS AND LIABILITIES

The Riksbank's financial assets consist of the gold and foreign exchange reserves, including receivables from the International Monetary Fund (IMF), assets relating to the Riksbank's monetary policy activities, securities issued in Swedish kronor and derivative instruments (see Chart 19).

Like many other central banks, the Riksbank has a gold reserve. To a certain extent this is a remnant of the days of the gold standard, when banknotes and coins could be redeemed for a certain quantity of gold. There is no such link today and gold is instead a financial asset that, like the foreign exchange reserve, aims to ensure that the Riksbank can fulfil its tasks. The gold reserve contributes to counteracting fluctuations in the value of the foreign exchange reserve, as the price of gold does not usually follow the same pattern as the value of the foreign exchange reserve. The gold reserve is reported under its own heading on the Riksbank's balance sheet.

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

The Riksbank's assets also include receivables from the IMF, as the Riksbank is responsible for the commitments 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.

The foreign exchange 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.

Since the second six-month period of 2012, the Riksbank also holds assets in the form of securities issued in Swedish kronor. These assets are reported on the balance sheet under the heading Securities of residents in Sweden denominated in Swedish kronor.

To be able to implement its monetary policy, the Riksbank may also hold so-called monetary policy assets. These assets may consist of the claims on Swedish banks resulting from the monetary policy repo. However, since the

autumn of 2008 there has been a liquidity surplus in the banking system that the Riksbank mainly borrows, either through overnight loans, so-called fine-tuning transactions, or by issuing Riksbank certificates. This borrowing means that the Riksbank has a debt to the banks. This debt is reported on the balance sheet under the headings Debt certificates issued and Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor. The Riksbank also provides so-called standing facilities, which means that the banks can borrow money from or deposit money with the Riksbank overnight. This borrowing and lending is reported on the balance sheet under the headings Deposit facility and Marginal lending facility.

The Riksbank also has financial liabilities in foreign currencies to the National Debt Office. These liabilities consist of US dollars and euros that the Riksbank has borrowed from the National Debt Office in order to strengthen the foreign exchange reserve. Borrowing from the National Debt Office is reported on the balance sheet under the heading Liabilities to residents in Sweden denominated in foreign currency.

To facilitate the management of financial risk, the Riksbank can use derivative instruments. The derivative instruments with a positive value at 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.

Management of the gold and foreign exchange reserves

Being able to provide temporary liquidity assistance in foreign currency at short notice is the task that makes the greatest demands on the composition of the gold and foreign exchange reserve. Consequently, most of the foreign exchange reserve is maintained in those currencies in which emergency liquidity assistance may be needed and in such assets as can rapidly be converted into liquid funds. The Riksbank's tasks entail the foreign exchange reserve focusing on assets in US dollars and euro. At the end of the year, the assets in US dollars and euros amounted to 49 per cent and 31 per cent respectively of the gold and foreign exchange reserves (see Chart 20).

In 2014, in order 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 were mostly made in British government bonds, Australian government and federal state bonds and Canadian government and provincial bonds.

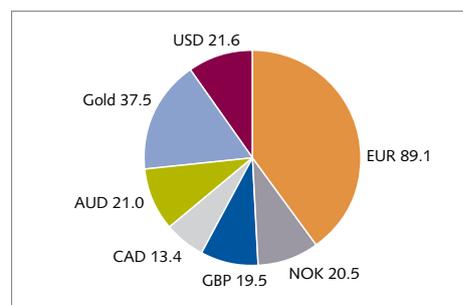
As the Riksbank's assets mainly consist of US dollars and euro, the Bank's earnings are affected by the way the value of these two currencies develops in relation to the Swedish krona. However, the effect on earnings is counteracted by the Riksbank also having liabilities in US dollars and euro. To further reduce the effect of exchange rate changes, some of the Riksbank's exposure to US dollars was converted over the year to exposure to Norwegian kroner with the aid of foreign exchange derivatives. Chart 21 shows the Riksbank's currency exposures at the end of the year.

Due to the internationally-low interest rates and the increased risk of an increase in interest rates, the Riksbank decided over the year to retain the interest-rate sensitivity of the foreign exchange reserve at around 3, measured as modified duration (see Chart 22). A modified duration of 3 means that the value of the foreign exchange reserve would fall by almost 3 per cent if interest rates increased by 1 percentage point, and the reverse if interest rates were to fall by 1 percentage point.

Prior to 2014, the Riksbank decided that its holdings of gold, amounting to 125.7 tonnes, should remain unchanged for the year. The Riksbank's gold reserve is stored

Chart 21

The Riksbank's foreign currency exposure at the end of 2014, SEK billion



Note. The figures in the chart show the Riksbank's foreign currency exposure including accrued interest. The calculation of foreign currency exposure is based on both assets and liabilities (including foreign exchange derivatives) and is reported in the chart for the Riksbank's net receivables.

Source: The Riksbank.

Chart 22

Modified duration of the foreign exchange reserve, 2014

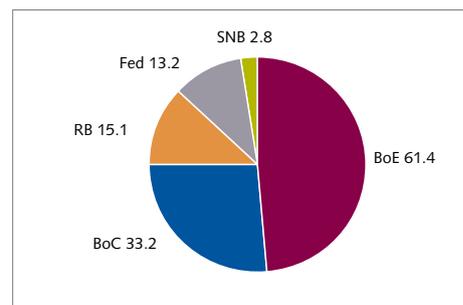


Note. The calculation of the foreign exchange reserve's modified duration is based on both assets and liabilities and is reported in the chart for the Riksbank's net receivables.

Source: The Riksbank.

Chart 23

Storage of the gold reserve at the end of 2014, tonnes



Source: The Riksbank.

Table 4. Sweden's financial commitments to the IMF 2014, SDR million and SEK million respectively

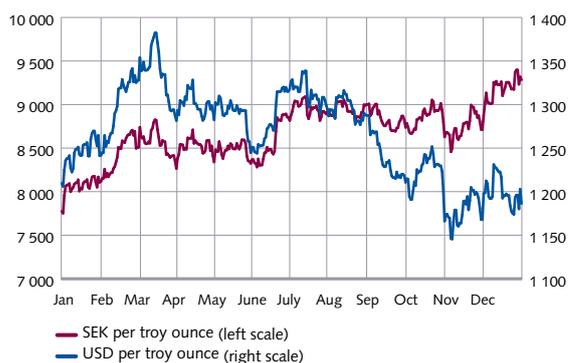
	SDR	SEK
Sweden's maximum commitment	18 033	204 505
Used at the beginning of the year	919	10 424
Change during the year	-128	-1 455
Used at the end of the year	791	8 969
Unutilised share of the commitment	17 242	195 536

Note. The SDR amounts have been converted at the exchange rate applying at year-end.

Source: The Riksbank.

Chart 24

Gold price movements, 2014



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

Source: Reuters.

with the central banks in the United Kingdom (the Bank of England), Canada (the Bank of Canada), the United States (the Federal Reserve Bank of New York), Switzerland (the Swiss National Bank) and at the Riksbank (see Chart 23). As in previous years, the Riksbank also stored gold on behalf of others in 2014.

During the year, the Riksbank visited the Federal Reserve Bank of New York and the Bank of Canada to inspect the gold stored there on behalf of the Riksbank. Similar inspections were carried out in 2013 at the Bank of England and the Swiss National Bank. All of these inspections passed without complaint.

In 2014, the Riksbank contributed to the IMF's loans to Greece and Ukraine by transferring US dollars equivalent to SEK 177 million to the International Monetary Fund. Due to repayments from Ireland, Pakistan, Romania and Sri Lanka, the Riksbank received US dollars equivalent to SEK 2 131 million back. Under the framework of the New Arrangement to Borrow (NAB), the Riksbank lent dollars equivalent to SEK 846 million to the IMF which, in turn, lent these funds to Greece, Jamaica, Tunisia and Ukraine. Under the same agreement, the Riksbank received repayments in US dollars from Ireland, Jamaica, Romania, Sri Lanka and Belarus equivalent to SEK 1,370 million.

In addition to these transactions, the Riksbank sold a total of 75 million Special Drawing Rights (SDR) on behalf of the IMF to Morocco and Serbia. The Riksbank also purchased a total of 18 million SDR from the Arab Monetary Fund and the Bank for International Settlements (BIS). These transactions were carried out against payment in US dollars.

All in all, the Riksbank's transactions with the IMF meant that Sweden's unutilised commitments to the IMF increased by SEK 1,455 million (see Table 4).

Follow-up

At the end of 2014, the value of the Riksbank's financial assets amounted to SEK 500.8 billion, which is SEK 70.8 billion more than at the end of 2013. The change is primarily due to fluctuations in exchange rates. The Riksbank's financial liabilities were valued at SEK 307.5 billion and the total return amounted to SEK 31.5 billion.

The monetary policy transactions in 2014 consisted of standing facilities and deposits from the banking system via fine-tuning transactions and Riksbank Certificates. Deposits from the banking system amounted to SEK 49.8 billion at year-end, which is an increase of SEK 3.2 billion in relation to the previous year. The increase is mostly explained by the fact that the value of outstanding banknotes and coins fell by SEK 2.5 billion. The Riksbank's interest expenditure for total deposits from the banking system amounted to SEK 230 million at the end of the year (see Table 5). Average deposits during the year via Riksbank Certificates and fine-tuning transactions amounted to SEK 32.6 billion and SEK 21.3 billion respectively.

During the course of the year, the fall in market rates for Swedish government bonds had a positive impact on the Riksbank's holdings of securities in Swedish kronor. At the end of the year, the market value of the Riksbank's holdings of such securities was SEK 11.3 billion and the return amounted to SEK 883 million.

Management of the gold and foreign exchange reserves

The market value of the gold and foreign exchange reserves (including net receivables from the IMF) was SEK 464.0 billion at the end of the year. The reserves consisted of assets in foreign currency at a value of SEK 417.2 billion, gold at a value of SEK 37.5 billion and net receivables from the IMF amounting to SEK 9.2 billion (see Table 5).

The return on the foreign exchange reserve amounted to SEK 25.5 billion. The positive return is mainly due to the fact that the currencies in the foreign exchange reserve strengthened against the Swedish krona by an average of 9.0 per cent over the year. The total exchange rate effect amounted to SEK 16.7 billion. Interest rates fell over the year on the markets in which the Riksbank invested its assets. The return excluding foreign exchange effects thus amounted to SEK 8.9 billion, or 4.4 per cent.

Table 5. Return on the Riksbank's asset management in 2014, SEK million

	Assets	Liabilities	Return	Return excl. exchange rate effects
Gold and foreign exchange reserves incl. the IMF	489 460	254 817	33 247	8 858
Gold reserve	37 529	–	6 104	–
Foreign exchange reserve	417 244	229 311	25 536	8 850
The IMF	34 687	25 506	1 607	8
Derivative instruments	61	2 905	–2 405	302
Monetary policy transactions	33	49 807	–230	–230
Standing facilities	33	130	2	2
Fine-tuning transactions	–	14 673	–78	–78
Riksbank Certificates	–	35 004	–154	–154
Securities in SEK	11 270	–	883	883
Total	500 824	307 529	31 495	9 813

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

Source: The Riksbank.

The price of gold is usually measured in US dollars and in 2014 the price of gold expressed in dollars fell by 1.9 per cent (see Chart 24). However, as the dollar strengthened against the Swedish krona the price of gold in kronor increased by 19.4 per cent. The value of the Riksbank's holdings of gold thus increased by SEK 6.1 billion over the year.

At year-end, the Riksbank's liability to the Swedish National Debt Office amounted to SEK 229.3 billion, which is SEK 35.5 billion more than at the start of the year (see Table 5). At year-end, loans in US dollar and euros amounted to 77 per cent and 23 per cent respectively of this liability.

The value of the Riksbank's receivables from the IMF was SEK 34.7 billion at the end of the year, while the value of the Bank's liabilities to the IMF was SEK 25.5 billion. The return on the net receivables amounted to SEK 8 million over the year, excluding exchange rate effects (see Table 5).

At the end of the year, the total value of the Riksbank's derivative instruments was negative and entailed a debt of SEK 2.8 billion. The return on these derivative instruments excluding exchange rate effects amounted to SEK 302 million over the year.

Analysis of the management of the foreign exchange reserve

To evaluate whether the Riksbank's asset management contributes to lower risk or higher return on the foreign exchange reserve, the risk-adjusted return on the foreign exchange reserve is compared with a corresponding return on a so called reference portfolio. This reference portfolio is composed exclusively of the securities the Riksbank would hold to be able to carry out its tasks without considering the return. In 2014, the reference portfolio therefore consisted of 60 per cent US and 40 per cent German government bonds, whose overall

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 follow-up of the risks the Riksbank is exposed to is mainly carried out in the Markets Department, where the Middle Office is responsible for day-to-day risk control and for calculating the 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").

The Riksbank's financial risks consist of liquidity risk, market risk and credit risk. 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 exchange 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 currency 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.

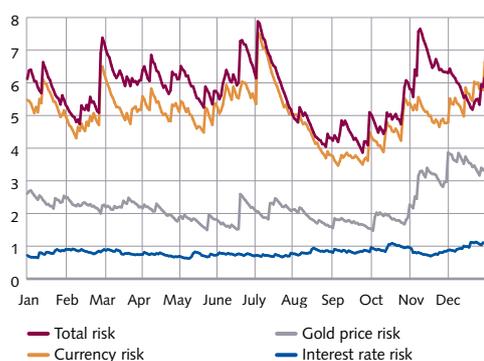
The Riksbank follows up the risks in its asset management on a continuous basis using Value-at-Risk (VaR) as the main measurement of market risk. VaR measures the greatest loss that can occur as a result of price movements during a given period of time and with a given degree of probability. The return on the assets in the foreign exchange 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.

In addition to regularly following up the risks in the asset management, the Riksbank also regularly tests the sensitivity of the gold and foreign exchange 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").

Chart 25

Value-at-risk for the gold and foreign exchange reserves, excluding net receivables from the IMF, 2014, SEK billion



Note. Seen over the whole year, exchange rate fluctuations made the greatest contribution to total risk. Total risk was periodically lower than currency risk as other risks counteracted currency risk. The calculation of market risk is based on both assets and liabilities and is reported in the chart for the Riksbank's net receivables.

Source: The Riksbank.

interest-rate sensitivity, measured as modified duration, was 4.0. The risk-adjusted return is calculated both excluding and including exchange rate effects.

The return on the foreign exchange reserve excluding exchange rate effects amounted to 4.4 per cent during the year. The corresponding return on the reference portfolio amounted to 4.8 per cent. As the foreign exchange reserve had a lower interest-rate sensitivity than the reference portfolio, the assets in the foreign exchange reserve did not increase in value as much when market rates fell during the year. At the same time, the lower sensitivity to interest rates in the foreign exchange reserve meant that the risk in the reserve was lower than that in the reference portfolio. The fact that instruments in the foreign exchange 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 reserve. During the year, the risk in the foreign exchange reserve amounted to 1.2 per cent, measured as a standard deviation without taking into account foreign exchange effects, while the risk in the reference portfolio amounted to 1.7 per cent.

If one adjusts the return to take the standard deviation into account, the return on the foreign exchange reserve is higher than the return on the reference portfolio. Measured as a Sharpe ratio, the risk-adjusted return on the foreign exchange reserve amounted to 3.8, while the corresponding value for the reference portfolio was 2.8.

However, the risk-adjusted return on the foreign exchange reserve was lower than the corresponding value for the reference portfolio when the return is calculated taking exchange rate effects into account. Measured in Swedish kronor, the risk-adjusted return on the foreign exchange reserve amounted to 2.9, while the corresponding value for the reference portfolio was 4.1. The lower value for the foreign exchange reserve was mainly due to the fact that the strengthening of the US dollar had a greater positive effect on the reference portfolio than on the foreign exchange reserve.

Market risks for the gold and foreign exchange reserves

The first half of the year was marked by variations in the level of market risk, measured as VaR with a confidence level of 99 per cent and a time period of 10 days, mainly due to exchange rate fluctuations (see Chart 25). The currency risk then weakened in pace with the decrease in exchange rate fluctuations during the summer, and thereafter strengthened again in the autumn. The gold price risk also increased during the autumn when the US dollar strengthened significantly against the Swedish krona. In addition, the interest rate risk increased due to a somewhat higher modified duration in the foreign exchange reserve. However, total market risk was on average somewhat lower in 2014 than in the preceding year due to a lower level of exchange rate fluctuations, and the covariation between the types of risk (interest rate risk, currency risk and gold price risk) weakened in the latter part of the year. At its peak, market risk amounted to SEK 7.9 billion during the year.

Market risk normally increases in periods of unease on the financial markets. During the financial crisis of 2008–2009, the gold and foreign exchange reserves' VaR reached a maximum of SEK 25.9 billion.

Asset management costs

The costs of asset management include both costs for managing the gold and foreign exchange reserves and costs for conducting monetary policy. The costs of asset management amounted to SEK 97 million over the year, which can be compared with SEK 93 million in 2013 (see the section "Balance sheet and profit and loss account").

COMPOSITION OF THE BALANCE SHEET

Many of the measures taken by the Riksbank influence its balance sheet. This means that the size and composition of the balance sheet varies over time. For example, the Riksbank's extraordinary measures in 2008 and 2009 meant that the size of its balance sheet (the balance sheet total, that is the total value of the Riksbank's assets) increased substantially. The Riksbank has no explicit policy for the composition of the balance sheet. This is rather the result of the operations conducted by the Bank. Figure 26 shows the composition at the end of 2013 and 2014.

The balance sheet total amounted to SEK 502.4 billion at year-end 2014. During the year, the Riksbank's equity (including the financial result for the year and the revaluation accounts) increased by SEK 27 401 million to SEK 109 408 million, mainly as a result of an increase in the value of the gold and foreign exchange reserves.

The vast majority of the Riksbank's assets (97 per cent) was made up of the gold and foreign exchange reserves, 7 per cent of which were receivables from the IMF. The largest part on the liabilities side (the Riksbank's liabilities and equity), 45 per cent, was made up of borrowing from the National Debt Office for the foreign exchange reserve, while 10 per cent consisted of Swedish debts, mainly to the Riksbank's counterparties in the form of deposits (deposit facility, fine-tuning transactions and/or issued Riksbank Certificates). These assets and liabilities are presented in more detail in the section "Financial assets and liabilities". Banknotes and coins made up 17 per cent of the Riksbank's liabilities side, while the revaluation accounts and equity formed 22 per cent. The item Banknotes and coins is described in more detail in the section "A safe and efficient payment mechanism". Other assets and liabilities are reported in more detail in the section "Balance sheet and profit and loss account".

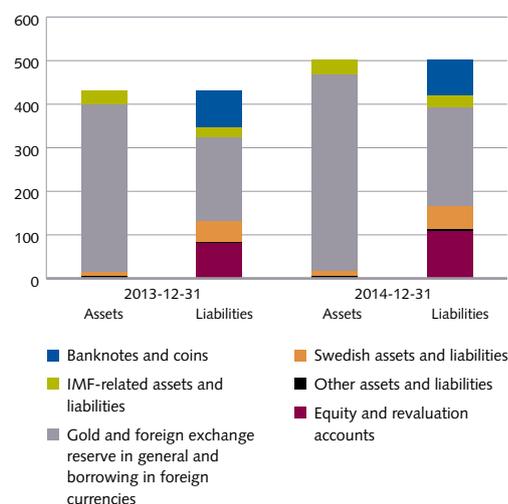
The balance sheet total increased in 2014 by SEK 70.8 billion to SEK 502.4 billion, mainly as a result of an increase in the value of the foreign exchange reserve due exchange rate fluctuations. The amount of banknotes and coins in circulation continued to fall and was equivalent to 17 per cent of the balance sheet total at the turn of the year 2014/2015. This fall led to an increase in the deposits in Swedish kronor from the Riksbank's counterparties.

The major part of the Riksbank's earnings is in foreign currencies, while its costs are mainly in Swedish kronor. As the Riksbank pays its costs, or pays dividends to the Treasury, the amount of kronor in the Swedish banking system therefore increases. In 2014, the Riksbank paid a dividend of SEK 3.3 billion to the Treasury. To prevent the payment of the dividend leading to an equivalent increase of the banking system's deposits in Swedish kronor, the Riksbank sold foreign securities from the foreign exchange reserve and converted the payment for these into Swedish kronor. These kronor were then used for the dividend.

In 2014, the Riksbank's earnings were positively affected by the development of exchange rates for the currencies in the foreign exchange reserve. The Riksbank has continued to analyse the potential development of earnings over the next five years in light of the effects that the development of international interest rates may have on the Riksbank's holdings of foreign securities. The prevailing low interest rates mean that the current return on securities is low. If interest rates remain low, current return will remain low. If interest rates instead start to rise, the current return will gradually rise, although the value of the Riksbank's foreign securities will simultaneously fall, impairing the total return from asset management. The analysis thus shows that, over the next five-year period, the Riksbank is expected to achieve a result that is significantly lower than over the previous five-year period, regardless of whether interest rates remain low or rise. In the latter case, the Riksbank may show significant losses over the short term. If this occurs, the Riksbank's ability to make dividend payments to the State will be limited.

Chart 26

The riksbank's balance sheet on 31 december 2013 and 2014, SEK billion



Source: The Riksbank.

Composition of the balance sheet, earnings and seigniorage

The Riksbank's financial result depends on the return on the Bank's assets, the costs of its liabilities and its operating costs. However, "result" is not a clear-cut concept. There are several ways to calculate the result of the Riksbank's operations and different measures are used in different contexts.

The broadest measure of the result can be termed *total result* and describes how the Riksbank's equity (including the revaluation accounts) has changed over the year. In 2014, equity increased by SEK 27 401 million. If one takes into account that equity fell by SEK 3 300 million in connection with the Riksbank's payment to the Treasury during the year, the total result for 2014 amounted to SEK 27 401 million + SEK 3 300 million = SEK 30 701 million.

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

In Table 6, the total result for 2014, that is SEK 30 701 million, has been divided into four parts. The realised result from interest rates and securities amounted to SEK 2 723 million. This includes the Riksbank's interest income and interest expenditure and the net result of all transactions and write-downs relating to securities. It also includes the item Other income, which largely consists of dividends on the Riksbank's shares in the BIS and fees from users of the RIX payment system, and costs for personnel, administration and write-downs. The realised result from gold and currency transactions, including write-downs, amounted to SEK 544 million. The unrealised result that followed as a consequence of falling interest rates amounted to SEK 6 296 million, while the unrealised result relating to rising gold prices and exchange rates was SEK 21 138 million.

Table 6. Result matrix, SEK million

	Interest and securities	Gold and currency
Realised result	2 723	544
Unrealised result	6 296	21 138

Source: The Riksbanken.

The Riksbank's *reported result*, that is the result taken up in the Riksbank's income statement, comprises all the realised results stemming from interest rates and securities transactions as well as from gold and currency transactions. The Riksbank's reported result for 2014 amounted to SEK 2 723 + 544 = 3 267 million.

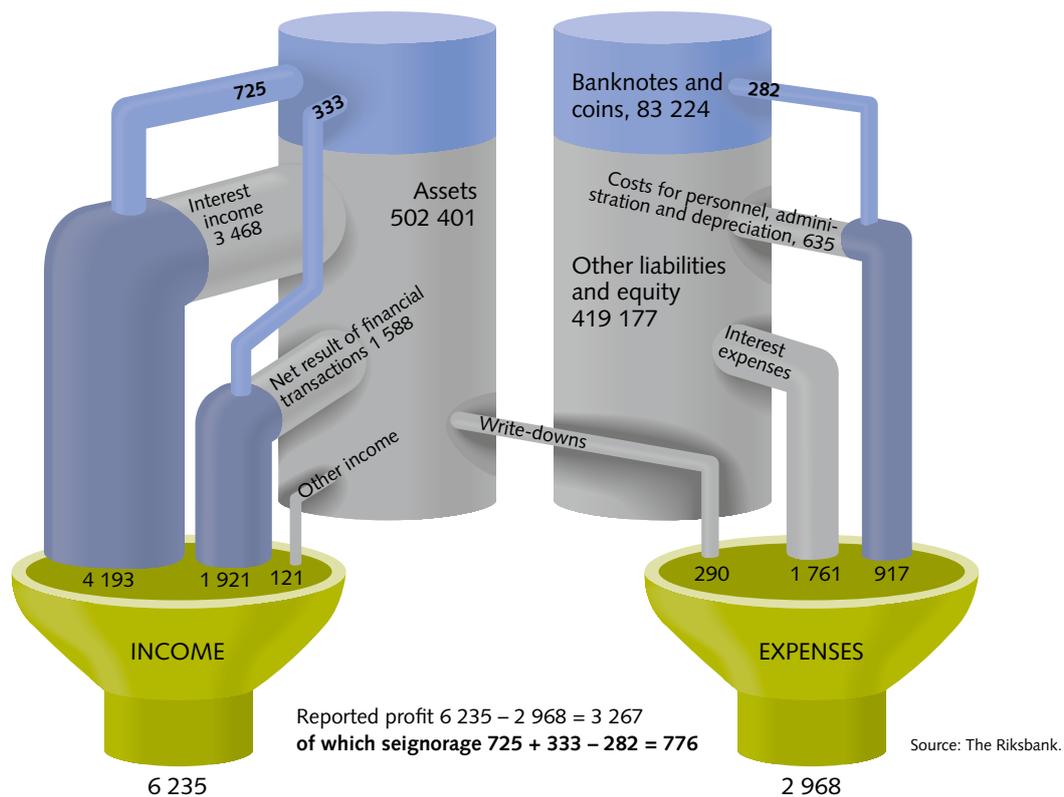
The *result on which the dividend to the State is based* comprises both realised and unrealised results linked to interest rates and securities, but excludes all results relating to gold and currency. In 2014, this result amounted to SEK 2 723 + 6 296 = 9 019 million. The size of the dividend itself is arrived at by calculating the average of the result over the past five years and multiplying it by 80 per cent. A compilation of how the different results relate to each other is presented in Table 7. Figure 2 also illustrates how different items on the Riksbank's income statement can be linked to the balance sheet.

What is seigniorage?

The Riksbank's *seigniorage* is part of the Bank's reported result and arises from the right to issue banknotes and coins. The value of all banknotes and coins in circulation is reported as a liability on the Riksbank's balance sheet. At the end of 2014, the value was SEK 83 224 million (see Figure 2). The Riksbank does not pay interest on this liability but incurs costs for managing banknotes and coins. Of the Riksbank's total costs for personnel, administration and depreciation of SEK 917 million, SEK 282 million were costs for managing banknotes and coins.

By issuing banknotes and coins the Riksbank can finance assets of the same value, but the Riksbank has no earmarked assets that exactly correspond to the item banknotes and coins. A standard calculation is therefore used when estimating the earnings from these assets. As the stock of banknotes and coins averaged 17.3 per cent of the balance sheet, it is assumed that 17.3 per cent of the total earnings come from the assets corresponding to banknotes and coins. Calculated in this way, SEK 725 million of the Riksbank's total interest income of SEK 4 193 can be said to come from these assets. Similarly, SEK 333 million of the total net result of financial transactions, excluding write-downs, of SEK 1 921 can be said to come from the assets corresponding to banknotes and coins. The total of the Riksbank's earnings and costs that can be related to banknotes and coins thus amounted to SEK 725 + 333 – 282 = 776 million. It is this sum that is referred to as the Riksbank's seigniorage.

Figure 2. The Riksbank's reported result and Seignorage 2014, SEK million



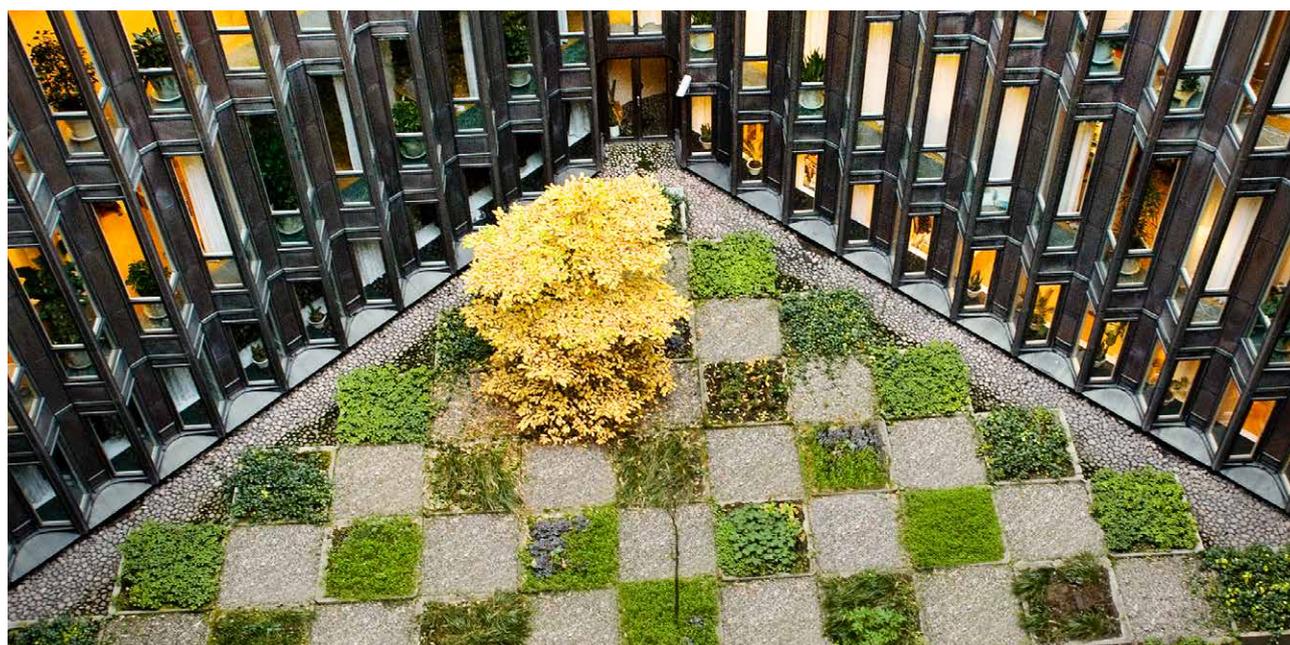
If the Riksbank was not entitled to issue banknotes and coins, it would lose an interest-free source of funding that at the end of 2014 amounted to SEK 83 244 million. The bank could then choose to reduce its assets by the same sum, and thus also lose the income from these assets. Nor would the Riksbank incur any costs for the management of banknotes and coins. The Riksbank's reported result would then be SEK 776 million lower.

Another way of calculating the value of the Riksbank's right to issue banknotes and coins is to assume that if this right had not existed the deposits from the Riksbank's counterparties would have been SEK 83 224 million higher. With an average repo rate of 0.47 per cent in 2014, this would have meant that the Riksbank would have had interest costs of an additional 0.47 per cent × SEK 83 224 million, that is SEK 389 million. However, the Bank would not have had any costs for the management of banknotes and coins, so that the total additional cost would not have exceeded SEK 107 million.

Table 7. Result measures 2014, SEK million

	Total	Reported	Basis for dividend
Interest income	4 193	4 193	4 193
Interest expenses	-1 761	-1 761	-1 761
Net result of financial transactions and write-downs	1 631	1 631	1 087
of which, sale of securities	1 142	1 142	1 142
and gold and currency respectively	779	779	
of which, sale of securities	-55	-55	-55
and gold and currency respectively	-235	-235	
Net result of changes in value (unrealised result)	27 434		6 296
of which, changes in value of securities	6 296		6 296
and gold and currency respectively	21 138		
Other income	121	121	121
Total net income	31 618	4 184	9 936
Personnel and administration costs and depreciation	-917	-917	-917
of which, costs for managing banknotes and coins	-282	-282	-282
other costs	-635	-635	-635
Result for the year	30 701	3 267	9 019

Source: The Riksbank.

*The courtyard is square in form and paved in checkerboard pattern, with alternating stone paving and plants.*

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

No changes in accounting policies were made in 2014.

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.

	31.12.2014	31.12.2013
EUR/SEK	9.4807	8.8538
USD/SEK	7.8274	6.4286
GBP/SEK	12.1991	10.6499
AUD/SEK	6.4059	5.7501
CAD/SEK	6.7585	6.0510
SDR/SEK	11.3404	9.9000
NOK/SEK	1.0463	1.0587
JPY/SEK	0.0653	0.0611

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

Shares and participations are recorded at cost of acquisition.

Tangible and intangible assets are recorded at cost of acquisition and depreciated according to plan. Buildings are depreciated over a period of 50 years, other fixed assets over 5–10 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 paid into an account at the Riksbank.

Banknotes and coins

The balance sheet item 'Banknotes and coins in circulation' is equivalent to the nominal value and calculated by deducting from the value of the banknotes and coins received by the Riksbank from the manufacturers both the value of the banknotes and coins included in the Riksbank's depots and the value of the banknotes and coins the Riksbank has destroyed and cancelled. Banknotes and coins in circulation that are no longer legal tender are recognised in the profit and loss account at the latest when they are no longer redeemed by the Riksbank. However, they must be recognised in 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 groups with a 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, that is at a value corresponding to the contract's forward amount multiplied by the difference between the closing day rate and the trade day rate (spot). The difference between the trade date exchange rate (spot) and the contracted forward exchange rate is allocated as interest over the term of the contract. Unlike foreign exchange forwards, no net foreign exchange gains/losses arise when recording FX swaps.

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

<i>SEK million</i>	Note	2014-12-31	2013-12-31
Assets			
Gold	1	37 529	31 425
Claims on residents outside Sweden denominated in foreign currency		448 840	385 784
Receivables from the IMF	2	34 684	32 873
Balances with banks, loans and security investments	3	414 156	352 911
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		33	–
Structural operations	4	–	–
Marginal lending facility	5	33	–
Securities of residents in Sweden denominated in Swedish kronor	6	11 126	9 534
Other assets		4 873	4 884
Tangible and intangible fixed assets	7	671	690
Financial assets	8	522	522
Derivative instruments	9	–	–
Prepaid expenses and accrued income	10	3 323	3 314
Other assets	11	357	358
Total assets		502 401	431 627

<i>SEK million</i>	Note	31.12.2014	31.12.2013
LIABILITIES AND EQUITY			
Banknotes and coins in circulation		83 224	85 700
Banknotes	12	77 887	80 294
Coins	13	5 337	5 406
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor		14 803	21 665
Deposit facility	14	130	580
Fine-tuning operations	15	14 673	21 085
Debt certificates issued	16	35 004	24 989
Liabilities to residents outside Sweden denominated in Swedish kronor	17	1 983	707
Liabilities to residents in Sweden denominated in foreign currency	18	228 331	193 117
Liabilities to residents outside Sweden denominated in foreign currency	19	–	–
Counterpart of Special Drawing Rights allocated by the IMF	20	25 504	22 265
Other liabilities		4 032	1 008
Derivative instruments	21	2 905	197
Accrued expenses and prepaid income	22	1 063	763
Other liabilities	23	64	48
Provisions	24	112	169
Revaluation accounts	25	53 111	25 677
Equity		53 030	58 341
Capital	26	1 000	1 000
Reserves	27	52 030	57 341
Profit for the year		3 267	–2 011
Total liabilities and equity		502 401	431 627

Memorandum items, See note 39.

Profit and loss account

<i>SEK million</i>	Note	2014	2013
Interest income	28	4 193	4 113
Interest expense	29	-1 761	-1 684
Net result of financial transactions and write-downs	30	1 631	-3 784
Fees and commission income	31	64	65
Fees and commission expense	32	-15	-12
Dividends received	33	39	55
Other income	34	33	26
Total net income		4 184	-1 221
Staff costs	35	-361	-375
Administrative expenses	36	-322	-316
Depreciation of tangible and intangible fixed assets	37	-62	-48
Banknote and coin expenses	38	-172	-51
Total expenses		-917	-790
Profit for the year		3 267	-2 011

Cash flow statement

<i>SEK million</i>	31.12.2014	31.12.2013
OPERATING ACTIVITIES		
Cash flow from operating activities, profit and loss	3 974	2 046
Interest received	4 458	3 434
Interest paid	-1 573	-1 249
Net received from financial transactions	1 921	554
Fees and commissions received	64	65
Fees and commissions paid	-15	-12
Other income	33	9
Administrative expenses paid	-914	-755
Cash flow from operating activities, assets	-8 588	-87 678
Receivables from the IMF	5 397	992
Securities in foreign currency	-13 027	-82 273
Securities of residents	-960	-6 381
Other assets	2	-16
Cash flow from operating activities, liabilities	1 899	110 339
Banknotes and coins in circulation	-2 476	-10 724
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	-6 862	-4 489
Debt certificates issued	10 015	21 991
Liabilities to residents outside Sweden denominated in Swedish kronor	1 276	551
Liabilities to residents in Sweden denominated in foreign currency	3 796	103 356
Other liabilities	-3 850	-346
Cash flow from operating activities	-2 715	24 707

The table continues on the next page.

<i>SEK million</i>	31.12.2014	31.12.2013
INVESTING ACTIVITIES		
Acquisition and disposal of tangible and intangible fixed assets	-43	-83
Acquisition and disposal of financial assets	0	-1
Dividends received	39	55
Cash flow from investing activities	-4	-29
FINANCING ACTIVITIES		
Transfer to the Treasury	-3 300	-6 800
Cash flow from financing activities	-3 300	-6 800
Cash flow for the period	-6 019	17 878
Cash and cash equivalents at beginning of period	19 803	3 093
Cash flow from operating activities	-2 715	24 707
Cash flow from investing activities	-4	-29
Cash flow from financing activities	-3 300	-6 800
Exchange rate difference on cash and cash equivalents	2 332	-1 168
Cash and cash equivalents at end of period	16 116	19 803
<i>Miljoner kronor</i>	31.12.2014	31.12.2013
SPECIFICATION OF CASH AND CASH EQUIVALENTS		
Bank accounts and bank lending denominated in foreign currency, see Note 3	16 083	19 803
Marginal lending facility	33	-
Total cash and cash equivalents	16 116	19 803

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.

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 2013.

Note 1 Gold

	31.12.2014	31.12.2013
Quantity		
Troy ounces (million)	4.0421	4.0421
Price		
USD/troy ounce	1 186.1423	1 209.3411
SEK/USD	7.8274	6.4286
Book value	37 529	31 425

As of 31 December 2014, the Riksbank holds 4 million troy ounces (troy/oz) of gold (4), which is equivalent to 125.7 tonnes. No gold was sold in 2014.

Note 2 Receivables from the IMF

	31.12.2014	31.12.2013
Special Drawing Rights	23 808	21 345
Reserve position in the IMF		
Capital contribution (quota)	27 166	23 715
IMF krona account	-22 521	-18 093
PRG-HIPC lending	211	184
NAB New Arrangements to Borrow	6 020	5 722
Total	34 684	32 873

The Riksbank's holding of Special Drawing Rights amounts to SDR 2 099 million (2 156). An amount corresponding to the total SDR allocated by the International Monetary Fund (IMF) is reported as a liability (see Note 20).

The Riksbank's 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 IMF's account in Swedish kronor is a liabilities account that shows how large a share of capital contribution the Riksbank has paid into the IMF by utilising the overdraft facility of this account. Because these items are reported net, only the part of the capital contribution used by the IMF for lending to member countries is reported as a receivable from the IMF.

The 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.

At the close of 2014 the Riksbank's NAB lending amounted to SDR 531 million (578).

At the close of 2014 the Riksbank also had a receivable from the IMF of SDR 12.8 million (12.8) for funds that the IMF may use for interest and credit losses due to delays. The IMF has made deductions from interest payments on the Riksbank's reserve position in the IMF to transfer the funds. The Riksbank has booked these deductions in the profit and loss account. Consequently they are not included as receivables from the IMF on the Riksbank's balance sheet.

Note 3 Balances with banks, loans and security investments

	31.12.2014	31.12.2013
Bank accounts	140	148
Bank lending	15 943	19 655
Bonds	363 912	290 205
Short-term securities	34 161	42 903
Total	414 156	352 911

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. The securities have been recorded at quoted prices.

	31.12.2014	31.12.2013
Euro	139 434	129 493
US dollars	221 260	178 299
Pounds sterling	19 343	16 289
Australian dollars	20 824	17 333
Canadian dollars	13 295	11 497
Norwegian kroner	0	0
Japanese yen	0	0
Total	414 156	352 911

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

Maturity	Balances with	
	banks	Securities
Up to 1 month	8 257	11 966
Over 1 month, up to 3 months	7 826	19 177
Over 3 months, up to 1 year	-	110 473
Over 1 year, up to 5 years	-	204 502
More than 5 years	-	51 955
Total	16 083	398 073

The Riksbank did not participate in any automatic securities lending programmes in 2014.

Note 4 Structural operations

The Riksbank did not conduct any structural operations in 2014.

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 the operations is to satisfy the long-term funding need of the banking system and to affect the Riksbank's structural position in relation to the banking system. The operations are not used to send any monetary policy signals.

Note 5 Marginal lending facility

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

Note 6 Securities of residents in Sweden denominated in Swedish kronor

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

The securities have been recorded at quoted prices.

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

Maturity	Securities
Up to 1 month	–
Over 1 month, up to 3 months	–
Over 3 months, up to 1 year	–
Over 1 year, up to 5 years	5 970
More than 5 years	5 156
Total	11 126

Note 7 Tangible and intangible fixed assets

	31.12.2014	31.12.2013
Land and buildings		
Cost of acquisition, 1 January	689	659
Acquisitions during the year	11	30
Divestments during the year	–	–
Reposting to Machinery and equipment	–113	–
Cost of acquisition, 31 December	587	689
Acc. depreciation, 1 January	–179	–170
Depreciation for the year	–14	–9
Divestments during the year	–	–
Acc. depreciation, 31 December	–193	–179
Book value	394	510
Machinery and equipment		
Cost of acquisition, 1 January	596	585
Acquisitions during the year	32	56
Divestments during the year	–104	–45
Reposting from land and buildings	113	–
Cost of acquisition, 31 December	637	596
Acc. depreciation, 1 January	–416	–419
Depreciation for the year	–47	–36
Divestments during the year	104	42
Write-down for the year	–1	–3
Acc. depreciation, 31 December	–360	–416
Book value	277	180
Total book value	671	690
Tax assessment value		
Buildings	–	–
Land	–	–

The item 'Land and buildings' includes two properties: the head office in Stockholm and the cash handling office in the municipality of Sigtuna (Broby). The properties are classified as special units and are therefore not taxable. In connection with activating the site office in Broby, SEK 113 million was reposted from Land and buildings to Machinery and equipment.

Acquisitions in 2014 include the new cash handling office for SEK 13 million (74) and IT applications for SEK 18 million (8).

The write-down relates to the assets of the cash handling offices in Tumba and Mölndal, whose operations ceased in 2014.

The item 'Book value, machinery and equipment' includes intangible fixed assets in the form of application systems in an amount of SEK 84 million (82).

Note 8 Financial assets

	31.12.2014	31.12.2013
Shares and participations		
Bank for International Settlements		
17 244 shares at a par value of SDR 5 000, of which 25% are paid up	441	441
European Central Bank		
Value of participation EUR 9 226 559.46 (9 179 064.74)	80	80
SWIFT		
16 (16) shares at a par value of EUR 125	1	1
Total	522	522

Central banks in the European System of Central Banks (ESCB) that are not part of the euro system are obliged to pay in 3.75 per cent of their capital subscription in the ECB. The Riksbank's capital subscription amounts to 2.2729 per cent (2.2612) and the ECB's total subscribed capital amounts to EUR 10 825 007 069.61 (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 ESCB. Central banks in the ESCB that are not included in the euro system are not entitled to any allocation of profit from the ECB, and have no obligation to cover any losses in the ECB.

At 1 January 2014, the Riksbank's capital subscription and subscription amount were adjusted due to the capital keys being updated, which takes place once every five years. Following this adjustment, the Riksbank's capital subscription is thus 2.2729 per cent and the paid-up subscription amount is EUR 9 226 559.46.

Note 9 Derivative instruments

	31.12.2014	31.12.2013
FX swaps, positive value	–	–
FX swaps, negative value	–	–
Total	–	–

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

The nominal amounts of the derivative contracts are shown below.

	31.12.2014	31.12.2013
FX swaps, positive value	–	–
FX swaps, negative value	–	–
Total	–	–

Note 10 Prepaid expenses and accrued income

	31.12.2014	31.12.2013
Receivables from the IMF	3	6
Bank accounts and bank lending	0	0
Bonds in foreign currency	3 088	3 075
Derivative instruments	61	57
Bonds in Swedish kronor	144	165
Other	27	11
Total	3 323	3 314

Note 11 Other assets

	31.12.2014	31.12.2013
Staff loans	318	333
Accounts receivable	5	4
VAT recoverable	13	12
Balances with banks	20	9
Other	1	0
Total	357	358

Note 12 Banknotes

Value of banknotes in circulation, by denomination

	31.12.2014	31.12.2013
1 000 krona	6 160	9 709
500 krona	57 203	57 378
100 krona	9 223	9 506
50 krona	1 093	1 236
20 krona	1 738	1 742
Commemorative banknotes	2	2
Invalid banknotes	2 468	721
Total	77 887	80 294

The item 'Invalid banknotes' contains banknotes in circulation that ceased to be legal tender at the end of 2005 and 2013. 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 13 Coins

Value of coins in circulation, by denomination

	31.12.2014	31.12.2013
10 krona	2 513	2 570
5 krona	1 337	1 336
2 krona	8	8
1 krona	1 404	1 393
Commemorative coins	75	99
Total	5 337	5 406

In 2014 the item 'Commemorative coins' was written down by SEK 22 million (17) referring to issues of commemorative coins that are older than ten years.

Note 14 Deposit facility

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

Note 15 Fine-tuning operations

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

Note 16 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 done at the Riksbank's most important policy rate, the repo rate, as a rule with a maturity of one week.

Note 17 Liabilities to residents outside Sweden denominated in Swedish kronor

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

Note 18 Liabilities to residents in Sweden denominated in foreign currency

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

	31.12.2014	31.12.2013
Euro	51 938	48 503
US dollars	176 393	144 614
Total	228 331	193 117

Note 19 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.

Note 20 Counterpart of Special Drawing Rights allocated by the IMF

The Riksbank's liability corresponding to the Special Drawing Rights (SDR) originally allocated by the IMF is reported here. The total allocation is SDR 2 249 million (2 249). The current holding of SDR amounts to SDR 2 099 million (2 156) and is reported under the item 'Receivables from the IMF' (see Note 2).

Note 21 Derivative instruments

	31.12.2014	31.12.2013
FX swaps, positive value	–	–116
FX swaps, negative value	2 905	313
Total	2 905	197

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

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

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

	31.12.2014	31.12.2013
FX swaps, positive value	–	10 564
FX swaps, negative value	23 295	10 560
Total	23 295	21 124

Note 22 Accrued expenses and prepaid income

	31.12.2014	31.12.2013
Fine-tuning operations	–	0
Debt certificates issued	–	7
Deposits, Swedish National Debt Office	980	673
Counterpart of Special Drawing Rights	2	4
Other	81	79
Total	1 063	763

Note 23 Other liabilities

	31.12.2014	31.12.2013
Accounts payable – trade	45	31
Other	19	17
Total	64	48

Note 24 Provisions

	31/12/2014	31/12/2013
Pension provision	88	96
Invalid banknotes	22	35
Lease Malmö office	–	34
Job Security Foundation	2	4
Total	112	169

The pension provision has been calculated by the National Government Employee Pensions Board (SPV). SEK 85 million (94) refers to PA 91 pensioners with a date of retirement prior to 2003, and SEK 3 million (2) 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 22 million (35) for the estimated future costs of banknotes that ceased to be legal tender but that the Riksbank still may redeem.

In May 2014 the rental agreement for the office in Malmö was wound up by means of the property owner Drakaren AB taking over the rental agreement in exchange for compensation equalling the Riksbank's provision for outstanding costs for the rental agreement.

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

Note 25 Revaluation accounts

	31.12.2014	31.12.2013
Price effect	9 854	3 558
Exchange rate effect	17 525	2 491
Gold value effect	25 732	19 628
Total	53 111	25 677

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 transition to 2004 it was decided that the cost of acquisition values should correspond to the market values as at 31 December 2003. If the unrealised losses exceed the unrealised gains at the end of the year, the difference is reported in the profit and loss account. This calculation is made security by security and currency by currency.

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

Exchange rate effects are shown in the following table.

	31.12.2014	31.12.2013
Euro	7 487	2 257
US dollars	2 866	–
Pounds sterling	2 637	234
Australian dollars	2 012	–
Canadian dollars	1 366	–
Special Drawing Rights	1 157	–
Norwegian kronor	–	–
Total	17 525	2 491

Note 26 Capital

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

Note 27 Reserves

	31.12.2014	31.12.2013
Reserve fund	500	500
Contingency fund	29 569	32 632
Balancing fund	21 961	24 209
Total	52 030	57 341

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 2014 a reposting was made of SEK 2 million (2) 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:

	31.12.2014	31.12.2013
Allocation of profit:		
Exchange rate effect	-3 510	-447
Gold value effect	7 356	7 356
Other allocation of profit	16 789	16 787
Write-up of assets:		
Gold reserve	8 604	8 604
Fixed assets	95	97
BIS shares	235	235
Total	29 569	32 632

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 2012	1 000	62 207	1 934
Transfer to the Treasury	-	-	-6 800
Transfer to/from:			
Balancing fund	-	-2 353	2 353
Contingency fund	-	-2 513	2 513
Profit for the year	-	-	-2 011
Balance, 31 December 2013	1 000	57 341	-2 011
Transfer to the Treasury	-	-	-3 300
Transfer to/from:			
Balancing fund	-	-2 248	2 248
Contingency fund	-	-3 063	3 063
Profit for the year	-	-	3 267
Balance, 31 December 2014	1 000	52 030	3 267

Note 28 Interest income

	2014	2013
From foreign assets:		
SDR	19	17
Reserve position in the IMF	4	4
NAB (New Arrangements to Borrow)	5	5
Bank accounts	1	1
Bank lending	23	44
Bonds	3 657	3 620
Short-term securities	34	34
Derivative instruments	303	282
	4 046	4 007
From domestic assets:		
Fine-tuning operations	0	0
Marginal lending facility	2	1
Reverse repurchase agreements	5	-
Other lending	0	1
Bonds	135	100
Staff loans	5	4
	147	106
Total	4 193	4 113

Note 29 Interest expense

	2014	2013
From foreign liabilities:		
Deposits, Swedish National Debt Office	-1 487	-1 236
Deposit repos	-	0
Counterpart of Special Drawing Rights	-20	-18
Derivative instruments	-1	-
	-1 508	-1 254
From domestic liabilities:		
Fine-tuning operations	-78	-197
Debt certificates issued	-154	-199
Deposit repos	-3	-1
Bank accounts	0	-1
Cash depots	-18	-32
	-253	-430
Total	-1 761	-1 684

Note 30 Net result of financial transactions and write-downs

	2014	2013
Price effect	1 087	-721
Exchange rate effect	544	-3 063
Gold value effect	-	-
Total	1 631	-3 784

The price effect consists of realised gains and losses on securities of SEK 1 142 million (702) and unrealised losses on securities of SEK -55 million (-1 423), 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 779 million (-148) and unrealised exchange rate losses of SEK -235 million (-2 915) that were recognised in the profit for the year due to write-down of the foreign currency holding. When calculating the Riksbank's allocation of profit, the exchange rate effect is excluded from reported profit.

Note 31 Fees and commissions income

The item includes annual and transaction charges for the RIX system of SEK 64 million (65).

Note 32 Fees and commissions expenses

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

Note 33 Dividends received

In 2014 the Riksbank received a dividend from the BIS of SEK 39 million (55).

Note 34 Other income

	2014	2013
Reimbursement for the redemption of invalid banknotes	3	0
Unredeemed cash received	-	1
Reimbursement for discoloured banknotes etc.	1	3
Coins written off	22	17
Sida (Swedish International Development Cooperation Agency)	4	2
Other	3	3
Total	33	26

In 2014 the item 'Coins written off' was written down by SEK 22 million (17) referring to issues of commemorative coins in circulation that are older than ten years.

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

Note 35 Staff costs

	2014	2013
Salaries and benefits	-224	-231
Salary recorded as assets	2	0
Social security contributions	-70	-72
	-292	-303
Pension premiums	-42	-41
Pension payments	-11	-12
Change in pension provision	11	8
Special payroll tax	-13	-13
	-55	-58
Training	-3	-4
Staff representation	-2	-2
Other	-9	-8
	-14	-14
Total	-361	-375

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.

Staff representation expenses of SEK 2.0 million (2.2) refer to costs for board, lodging and activities in connection with internal courses, conferences, staff parties and information meetings.

Salaries and benefits to the members of the Executive Board in 2014 amounted to SEK 12.9 million, broken down as follows.

	2014	2013
Stefan Ingves	2.0	1.8
Kerstin af Jochnick	2.3	2.3
Karolina Ekholm	1.7	2.1
Martin Flodén	2.2	1.3
Per Jansson	2.2	2.2
Cecilia Skingsley	2.2	1.3
Lars E.O. Svensson	-	1.1
Barbro Wickman-Parak	-	1.0
Qualification period salaries	0.3	4.2
Total	12.9	17.3

In addition, the Governor of the Riksbank received a board fee in 2014 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 the board fee from BIS.

The item 'Qualification period salaries' refers to Lars E.O. Svensson and Barbro Wickman-Parak. 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. On 28 October 2011, the General Council decided that Executive Board members elected after this date will receive remuneration for a maximum of six months.

The General Council has decided that the Ordinance on Severance Benefits for Certain Employees employed as Senior Government Officials (2003:55) shall be applied for all present Executive Board members.

The General Council has, however, decided on an exception for Stefan Ingves, such that if he receives a pension, before he turns 65 years of age, ensuing from the position he held with the International Monetary Fund (IMF), which he had before he was appointed Governor of the Riksbank, there will be no reduction in the income guarantee. Neither shall the pension from the IMF involve any reduction in his salary, if the pension is paid out during the period in which he receives salary from the Riksbank.

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 2014 was 330 (341), of which 150 (149) women and 180 (192) men. The number of FTEs at the end of the year was 329 (336). Total sick leave in 2014 corresponded to 1.7 per cent (1.6) of employees' total working hours. Sick leave over a continuous period of 60 days or more in 2014 was 38.8 per cent (39.9) of total sick leave. Women's sick leave in relation to total regular working hours for women amounted in 2014 to 2.6 per cent (2.1), while the corresponding figure for men in 2014 was 0.9 per cent (1.3).

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

	2014	2013
29 years or younger	0.5 %	0.9 %
30–49 years	1.6 %	1.5 %
50 years or older	2.2 %	2.0 %

Note 36 Administrative expenses

	2014	2013
Information, representation	-8	-14
Transport, travel	-15	-14
Consultancy assignments	-38	-40
Other external services	-88	-92
IT operations	-112	-94
Economics prize	-13	-13
Office and property maintenance	-39	-41
Other	-9	-8
Total	-322	-316

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

Representation expenses amounted to SEK 3.1 million (2.8).

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

Consultancy assignments amount to SEK 38 million (40). This amount includes the costs of IT consultants of SEK 17 million (22).

The cost of statistics deliveries of SEK 59 million (59) 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 audit fees to the Swedish National Audit Office and the General Council's auditors are included in the amount of SEK 2 million (2).

The 'IT operations' item includes licensing expenses of SEK 43 million (41) and IT services of SEK 64 million (47). The change in IT services is largely explained by the former in-house IT operations being purchased as a service throughout 2014 and parts of 2013. Costs for staff, consultants, etc. for such services has decreased.

The 'Economics prize' item includes the prize sum of SEK 8 million (8) and administration costs for the prize of SEK 5.2 million (5.2).

The largest single items in the cost group 'Office and property maintenance' consist of refurbishment and maintenance of the Riksbank's premises of SEK 8 million (6), and rent of premises of SEK 4 million (13).

Note 37 Depreciation of tangible and intangible fixed assets

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

Note 38 Banknote and coin expenses

Of the total cost of notes and coins of SEK 172 million (51), SEK 138 million (34) refers to circulation banknotes and SEK 34 million (17) to circulation coins. No commemorative coins were bought in 2014 (-).

Note 39 Memorandum items

Pledged assets

At the close of 2014 no securities were pledged in connection with foreign securities repos (–).

Contingent liabilities

Outstanding claims for compensation amounted to SEK 2 million (6) at the close of 2014.

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 13.2 million in 2014 (13.2).

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

Contingent assets

At the end of 2014 the Riksbank had outstanding compensation claims of SEK 4 million (–10).

Lending and exchange commitments with the IMF

	31.12.2014	31.12.2013
Special Drawing Rights	52 706	45 450
Reserve position	22 521	18 093
GAB, NAB, bilateral loan	44 328	38 231
Credit agreement	75 981	66 330
Total	195 536	168 104

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

Special Drawing Rights

Under the IMF by-laws the commitment referring to Special Drawing Rights means that the Riksbank, through what is known as designation, may be obliged to buy Special Drawing Rights (SDR) in exchange for foreign currency to such an amount that the Riksbank's total SDR holding is a maximum of 300 per cent of the ordinary allocation, i.e. 3 x SDR 2 249 million. This equals SEK 76 514 million (66 795). This commitment also includes the Riksbank's standing arrangement to, on the IMF's request, buy or sell SDR in exchange for payment in US dollars or euro within an interval of 50 to 150 per cent of the Riksbank's total net allocation of SDR. Because the Riksbank's SDR holding amounts to SEK 23 808 million (21 345), see Note 2, the outstanding commitment amounts to SEK 52 706 million (45 450).

Reserve position

The commitment concerning the reserve position (capital contribution minus the IMF krona account) means that the Riksbank is obliged to exchange the balance in the IMF's krona account to foreign currency if the IMF needs such funds for lending to other countries.

At year-end the balance in the IMF's krona account was SEK 22 521 million (18 093), see Note 2.

Sweden's capital contribution to the IMF at present is SDR 2 395.5 million. In the autumn of 2011, the Riksdag granted authorisation to increase Sweden's capital contribution (quota) in the IMF by SDR 2 034.5 million such that it amounts to a total of SDR 4 430 million. The increase will not be implemented until a sufficient number of Member States (70 per cent) have ratified the proposed increase, and ratified a related proposal regarding IMF governance (85 per cent). The IMF's proposed quota increase is based on an approximately equivalent reduction of Sweden's commitment in the IMF's arrangements to borrow, NAB (see below).

GAB and NAB

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 4 439.7 million (4 439.7), which is equivalent to SEK 50 348 million (43 953).

These arrangements are only activated under special circumstances and are aimed at temporarily strengthening the IMF's lending capacity over and above the funds available under the capital contribution. Because the Riksbank's NAB lending at year-end amounted to SEK 6 020 million (5 722), see Note 2, the outstanding commitment amounts to SEK 44 328 million (38 231).

Credit agreement

In February 2013 – after receiving the consent of the Riksdag – the Riksbank signed an agreement on credit to the IMF in the amount of SDR 6 700 million, which is equivalent to SEK 75 981 million (66 360). In order to use this agreement the IMF's remaining funds for lending must be less than SDR 100 000 million.

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 amounted to SDR 65 million (65), equivalent to SEK 737 million (650) at the end of 2014.

Deposit agreements

Agreement with the BIS implying that the Riksbank, subject to a specific agreement, may borrow foreign currency.
 Agreement with the ECB implying that the Riksbank, subject to a specific agreement, may borrow euros in exchange for Swedish kronor.

The profit and loss account and balance sheet by function

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

Function	2014			2013		
	Net income	Expenses	Profit/Loss	Net income	Expenses	Profit/Loss
Monetary policy	4	-184	-180	3	-187	-184
Financial stability	43	-178	-135	59	-178	-119
Payment system	64	-57	7	65	-57	8
Cash handling	9	-282	-273	-10	-163	-173
Asset management	4 061	-97	3 964	-1 339	-93	-1 432
Statistics	0	-103	-103	0	-95	-95
Economics prize and General Council, etc.	3	-16	-13	1	-17	-16
Total	4 184	-917	3 267	-1 221	-790	-2 011

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

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

The allocation model is based on the format of the profit and loss account and the balance sheet, where the Riksbank's outcome for 2014 amounts to SEK 3 267 million (-2 011) and assets and liabilities to SEK 502 401 million (431 627).

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 according to 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 215 employees, or 65 per cent of the total of 329, are directly involved in one of the functions. The other 114 employees are in support functions, mainly IT, communications and internal services.

Administrative expenses, excluding IT expenses

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

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

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

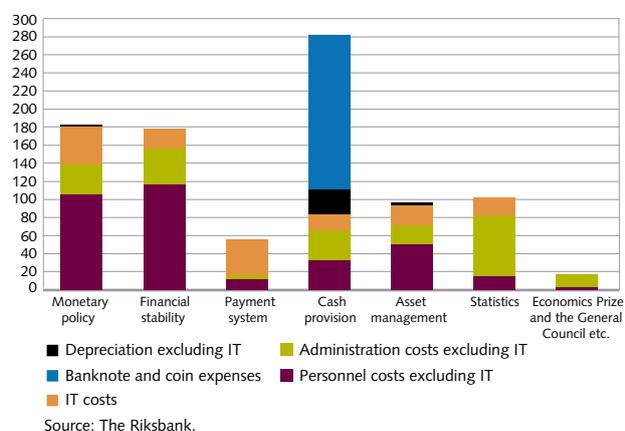
Costs for purchasing banknotes and coins amounted to SEK 172 million (51) in 2014. The costs are allocated in their entirety to the Cash handling function.

IT expenses

IT expenses refer to the costs of the IT operations. These operations are assigned to the Corporate Service Department. The model for allocation of IT expenses is based on three IT services: PC services, telephony and IT systems. PC services are allocated by users based on workstation cost. Telephony costs (not mobile telephony) are allocated on the basis of the number of directly involved employees per function in relation to the total number of directly involved employees in all functions. IT system costs (including licences) are allocated based on the number of logical servers per system.

Chart 27

Allocation by nature of expense by function, 2014, SEK million



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 2014 amounted to SEK 776 million (774).

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

The net income for Asset management reported in the profit and loss account amounted to SEK 4 061 million (-1 339). Total return from the Riksbank's asset management for 2014 was SEK 31 495 million (-19 025). See also table 5 in the 'Asset management' section of the Administration Report. The difference is explained by the change in the item 'Revaluation account in the balance sheet' (see table below).

	2014	2013
Interest income	4 188	4 109
Interest expense	-1 743	-1 652
Net result of financial transactions and write-downs reported in the profit and loss account	1 631	-3 784
Fees and commission expense	-15	-12
Net income, asset management	4 061	-1 339
Net result of financial transactions reported in revaluation accounts in the balance sheet	27 434	-17 686
Total return, asset management	31 495	-19 025
Net interest earnings on administration	-13	-28
Income from administration	136	146
Cost of administration	-917	-790
Profit/loss including income recognised in the balance sheet	30 701	-19 697
Reversal of income recognised in the balance sheet	27 434	17 686
Reported profit for the year	3 267	-2 011

Net interest earnings on administration in the table above consist 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 18 million (32).

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

Allocation of assets and liabilities

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

Function	31/12/2014		31/12/2013	
	Assets	Liabilities	Assets	Liabilities
Financial stability	441	-	441	-
Cash handling	-	83 224	-	85 700
Asset management	500 824	307 529	430 046	262 339
Unallocated	1 136	111 648	1 140	83 588
Total	502 401	502 401	431 627	431 627

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 result for the year.

Five-year overview

The five-year overview presents the balance sheet and profit and loss account restated according to current accounting policies. No restatement has been necessary for the last four years.

Balance sheet

<i>SEK million</i>	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010
ASSETS					
Gold	37 529	31 425	43 720	43 508	38 537
Claims on residents outside Sweden denominated in foreign currency	448 840	385 784	294 079	300 186	282 555
Receivables from the IMF	34 684	32 873	34 196	35 294	31 175
Balances with banks, loans and security investments	414 156	352 911	259 883	264 892	251 380
Lending to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	33	–	0	0	500
Structural operations	–	–	–	–	500
Marginal lending facility	33	–	0	0	0
Securities of residents in Sweden denominated in Swedish kronor	11 126	9 534	3 152	–	–
Other assets	4 873	4 884	4 788	4 223	5 334
Tangible and intangible fixed assets	671	690	655	502	389
Financial assets	522	522	521	521	521
Derivative instruments	–	–	662	–	584
Prepaid expenses and accrued income	3 323	3 314	2 609	2 873	3 522
Other assets	357	358	341	327	318
TOTAL ASSETS	502 401	431 627	345 739	347 917	326 926

Balance sheet

<i>SEK million</i>	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010
LIABILITIES AND EQUITY					
Banknotes and coins in circulation	83 224	85 700	96 441	100 136	105 401
Banknotes	77 887	80 294	91 056	94 771	99 902
Coins	5 337	5 406	5 385	5 365	5 499
Liabilities to credit institutions in Sweden related to monetary policy operations denominated in Swedish kronor	14 803	21 665	26 154	16 875	5 142
Deposit facility	130	580	339	44	45
Fine-tuning operations	14 673	21 085	25 815	16 831	5 097
Debt certificates issued	35 004	24 989	2 998	–	–
Liabilities to residents outside Sweden denominated in Swedish kronor	1 983	707	156	106	69
Liabilities to residents in Sweden denominated in foreign currency	228 331	193 117	88 413	86 497	83 774
Liabilities to residents outside Sweden denominated in foreign currency	–	–	–	–	431
Motpost till SDR som tilldelats av IMF	25 504	22 265	22 505	23 754	23 275
Other liabilities	4 032	1 008	384	1 283	535
Derivative instruments	2 905	197	–	943	–
Accrued expenses and prepaid income	1 063	763	306	252	488
Other liabilities	64	48	78	88	47
Provisions	112	169	184	203	220
Revaluation accounts	53 111	25 677	43 363	48 356	35 102
Other liabilities	53 030	58 341	63 207	66 777	72 429
Capital	1 000	1 000	1 000	1 000	1 000
Reserves	52 030	57 341	62 207	65 777	71 429
Profit for the year	3 267	–2 011	1 934	3 930	548
TOTAL LIABILITIES AND EQUITY	502 401	431 627	345 739	347 917	326 926

Profit and loss account

<i>SEK million</i>	2014	2013	2012	2011	2010
Interest income	4 193	4 113	4 280	5 493	7 717
Interest expense	-1 761	-1 684	-1 196	-1 359	-2 135
Net result of financial transactions and write-downs	1 631	-3 784	-603	209	-5 123
Fees and commission income	64	65	71	70	67
Fees and commission expense	-15	-12	-8	-8	-11
Dividends received	39	55	56	51	134
Other income	33	26	34	168	603
Total net income	4 184	-1 221	2 634	4 624	1 252
Staff costs	-361	-375	-366	-372	-345
Administrative expenses	-322	-316	-269	-261	-240
Depreciation of tangible and intangible fixed assets	-62	-48	-47	-51	-63
Banknote and coin expenses	-172	-51	-18	-10	-56
Total expenses	-917	-790	-700	-694	-704
Profit for the year	3 267	-2 011	1 934	3 930	548

Internal control

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

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

The Executive Board has evaluated the Riksbank's internal control in 2014 on the basis of the requirements in the Sveriges Riksbank Act and its conclusion is that the internal control is satisfactory.

Stockholm, 5 February 2015



Stefan Ingves
Governor



Kerstin af Jochnick
First Deputy Governor



Martin Flodén
Deputy Governor



Per Jansson
Deputy Governor



Henry Ohlsson
Deputy Governor



Cecilia Skingsley
Deputy Governor

Auditor's report for Sveriges Riksbank 2014

Report on the annual report

Pursuant to section 5 of the Act on the Audit of Central Government Activities, etc. (2002:1022), the Swedish National Audit Office has audited the annual report for Sveriges Riksbank for 2014, dated 5 February 2015.

The authority belongs to Auditor General Jan Landahl's audit area. The audit was conducted under the leadership of the auditor in charge Anders Herjevik with Jesper Fagerberg as audit manager.

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.

Auditor's responsibility

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 and the Swedish National Audit Office's Instruction for audit of performance reporting and other information in the annual report (RRI). Our responsibility in accordance with these standards requires the Swedish National Audit Office to comply with professional ethical requirements and to plan and perform the audit to obtain reasonable assurance that the annual report is free from material misstatement. We are independent from the authority in accordance with ISSAI 30 Code of Ethics and have fulfilled our commitments in accordance with these ethical regulations.

The objectives of our audit have been to obtain reasonable assurance that the annual report as a whole is free from material misstatement, and to design an auditor's report containing the statement of the Swedish National Audit Office. Reasonable assurance is a high level of assurance but is not a guarantee that an audit in accordance with ISSAI and RRI will always discover material misstatement when such is present. Misstatement may arise due to fraud or error and is considered to be material if, together or separately, it can reasonably be expected to affect the economic decisions made by the user on the basis of the annual report.

As part of an audit in accordance with ISSAI, we have planned and performed the audit with professional judgement and have maintained professional scepticism. We have also:

- identified and assessed risks of material misstatement in the annual report, whether this is due to fraud or error, designed and performed our audit procedures to manage these risks, and thereby obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is greater than for other

errors, as fraud may involve collusion, falsification, wilful misconduct, misleading or false presentation of information or circumvention of internal controls.

- obtained an understanding of the internal controls relevant to the audit so as to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the authority's internal control.
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related information presented by management in the annual report.
- evaluated the overall presentation, structure and content of the annual report, including information, and whether the annual report reasonably represents the underlying transactions and events in a manner that achieves fair presentation.
- obtained sufficient and appropriate audit evidence regarding the financial information for the authority.

As part of an audit in accordance with RRI, we have also planned and performed the audit so as:

- for essential information of financial or non-financial nature given in the administration report, to obtain sufficient and appropriate audit evidence that such information has been prepared, together with the other parts of the annual report, with a view to conveying an accurate picture of operations based on the rules.
- for other information not directly linked to the financial components, to implement measures to assure ourselves that this is consistent with the other parts of the annual report and free from material misstatement, based on our knowledge of the authority.

Our communication with management includes the planned scope and focus of the audit, and significant results of the audit, including any significant deficiencies in internal control that we identify during the audit.

We believe that the audit evidence we have received is sufficient and appropriate to provide a basis for the Swedish National Audit Office's opinion as presented below.

Opinion

In the opinion of the Swedish National Audit Office, the authority has, in all material respects:

- prepared the annual report 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 of the Riksbank.
- given a true and fair view of the economic result, funding and financial position of the Riksbank as at 31 December 2014.
- provided an administration report and information in general that is consistent with and supports a true and fair view of the annual report as a whole.

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

Report on other requirements in accordance with laws and other statutes

Administration of the General Council and the Executive Board

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 2014.

Responsibility of the General Council and the Executive Board

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

Responsibility of the auditor

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 carried out this audit in accordance with ISSAI and with the application of relevant parts of RevR 209, audit of the administration of the board of directors and managing director.

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. Our audit covered:

- the Rules of Procedure, instructions and any division of duties of the General Council and the Executive Board.
- the essential administrative measures undertaken by the Chair of the General Council and the Governor of the Riksbank.
- supervision of the organisation to ensure that bookkeeping, management of funds and economic conditions in general are subject to satisfactory internal control. Supervision also covers risk-taking, other risk exposures and protection against risk.
- measures to ensure the legal accounting and prudent management of funds, including the appropriate organisation, including responsibilities, systems and procedures for handling receipts and accounts, monitoring, supervision and control of accounting records and financial statements including adaptation to new conditions.
- management's ongoing assessment of the bank's financial situation.
- the work of the General Council and the Executive Board on minutes, decisions and decision-making material.
- individual management measures which, with regard to the scope and nature of the bank's activities are of an unusual nature or of major importance.
- other areas resulting from the bank's operations and the provisions of the Sveriges Riksbank Act (1988:1385).

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

Opinion

On the basis of the audit procedures undertaken, 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 2014.

The Executive Board's assessment of internal governance and control

Responsibility of the Executive Board for internal governance and control

In accordance with the requirements of the Sveriges Riksbank Act (1988:1385), the Executive Board has issued an opinion on the internal governance and control of the authority.

Responsibility of the auditor

Our responsibility is to express an opinion on the annual report based on our audit. We have carried out our audit in accordance with ISSAI and RRI. The planning and performance of the audit have considered the parts of the internal governance and controls relevant to the authority's preparation and fair presentation of the annual report. Our responsibility does not include conducting an audit of the efficiency of the authority's internal governance and control. Our statement regarding management's assessment of internal governance and control is therefore based on the actions we have taken to examine the annual report and consequently does not have the same assurance as a statement based on an audit.

Opinion

In our audit of the annual report, we have found nothing to indicate that management's assessment of internal governance and control has not complied with the Sveriges Riksbank Act (1988:1385).

The auditor in charge, Anders Herjevik, made the decision on this matter. Audit manager Jesper Fagerberg presented the report.

Stockholm 20 February 2015

Anders Herjevik

Jesper Fagerberg

1. THE DEPARTMENTS OF THE RIKSBANK AND THEIR TASKS

The Cash and Payment Systems Department

The Cash and Payment Systems Department is responsible for cash provision, the RIX payment system and the coordination of crisis preparedness in the central payment system.

Acting Head with effect from 1 March 2014 to 6 April 2014:
Christina Wejshammar

Head of Department from 7 April 2014: Christina Wejshammar

Number of full-time equivalents (number of employees) at year-end: 30 (32)

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: Kasper Roszbach

Number of full-time equivalents (number of employees) at year-end: 63 (75)

The Markets Department

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

Head of Department up to 28 February 2014: Sophie Degenne

Acting Head with effect from 1 March 2014 to 22 June 2014:
Sophie Degenne

Head of Department from 23 June 2014: Heidi Elmér

Number of full-time equivalents (number of employees) at year-end: 33 (33)

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. 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: Marianne Nessén

Acting Head with effect from 28 August 2014: David Vestin

Number of full-time equivalents (number of employees) at year-end: 84 (98)

The Corporate Services Department

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

Head of Department from 1 March 2014: Marianne Olsson

Number of full-time equivalents (number of employees) at year-end: 66 (69)

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 (number of employees) at year-end: 5 (5)

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: Anders Vredin

Acting Head with effect from 1 September to 30 November 2014: Eva Julin

Number of full-time equivalents (number of employees) at year-end: 44 (48)

2. 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, the head of department shall also present a draft consultation response to the Executive Board. Responsibility for overall coordination and administration of consultation work lies with the General Secretariat.

Among other things, the consultation responses handled by the Riksbank in 2014 have dealt with proposed measures to strengthen the stability of the financial system and supervision in the financial area. Several consultation responses have also dealt with amendments to Finansinspektionen's (the Swedish Financial Supervisory Authority) regulatory framework and with statistics. Most consultation responses were issued by the head of the appropriate department.

The Executive Board's consultation responses

The Executive Board has issued four consultation responses of particular importance within the Riksbank's area of activity.

The Riksbank raised no objections to the proposals in the report

on an overview of central government debt policy (SOU 2014:8). However, the Riksbank pointed out that the overall ability of the government to avert disruptions to the liquidity supply could be further improved by entitling the Riksbank to borrow government securities from the National Debt Office as proposed by the Financial Crisis Commission (SOU 2013:6).

In its response to Finansinspektionen's consultation on proposed regulations regarding the countercyclical buffer rate, the Riksbank welcomed the decision to activate the countercyclical capital buffer, but considered that the buffer rate should be set at a higher percentage than in Finansinspektionen's proposal.

The proposals in Finansinspektionen's consultation on coming capital requirements for banks were largely welcomed by the Riksbank.

The proposals in the Financial Crisis Committee's final report "Resolution – a new method of managing banks in crisis" (SOU 2014:52) were also welcomed by the Riksbank. The Riksbank largely shared the Committee's assessments but also proposed a few of its own or alternative solutions.

Over the year, the Riksbank issued 31 consultation responses. All consultation responses from the Riksbank have been published on the Riksbank's website (www.riksbank.se).

3. PUBLICATIONS

The Riksbank issues 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.

Account of Monetary Policy

Yearly report 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. This publication was previously named Material for assessing monetary policy.

Financial Stability Report

Published twice per year. In this report, the Riksbank presents its assessment of the development of the financial system, highlights potential risks to financial stability and makes recommendations concerning measures to reduce risks.

Financial Infrastructure

Published once per year. Contains the Riksbank's assessments of the stability and efficiency of the financial infrastructure in Sweden.

The Swedish Financial Market

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

Riksbank Studies and Economic Commentaries

These are longer and shorter analyses and studies within one of the Riksbank's fields of activity. They are published on an ongoing basis over the year.

Sveriges Riksbank Economic Review

Published two to four times per year. Contains in-depth articles related to the Riksbank's fields 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 research with a connection to the Riksbank's fields of activity that is 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. As of 2009, it is also possible to download the results of the Riksbank's business surveys and risk surveys as separate publications in PDF format.

Address: Sveriges Riksbank, 103 37 Stockholm **Telephone:** +46 8 787 00 00 **Web:** www.riksbank.se

4. THE SVERIGES RIKSBANK PRIZE IN ECONOMIC SCIENCES IN MEMORY OF ALFRED NOBEL 2014

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel for 2014 was awarded to Jean Tirole for his analysis of market power and regulations. In many industries, a small number of major companies or a single monopoly has a completely dominant position. If they are left unregulated, such markets often result in undesired outcomes for society. This may mean that prices become higher than can be justified by costs, or that low-productivity companies survive by preventing new and more productive companies from entering the marketplace. Tirole's research into these market failures and his analysis of companies with market power has created a cohesive theory applicable to central policy issues.



Jean Tirole was born in 1953 in Troyes, France (French citizen). Ph.D. 1981, Massachusetts Institute of Technology, Cambridge, MA, USA. Scientific Director for Institut d'Économie Industrielle, Toulouse School of Economics, Université Toulouse 1 Capitole, France.

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 expenses for the prize. The Government has established the statutes for the prize.

The prize is awarded every year to a person or persons who have produced work of outstanding importance in the field of economic sciences. The Royal Swedish Academy of Sciences selects the prize-winner(s) according to the same principles as for the Nobel Prizes. The prize amount is also the same. As of 2012, the prize amount is SEK 8 million, in accordance with the Nobel Foundation's decision to lower the prize amount for the other Nobel Prizes. This money is paid by the Riksbank. If there is more than one winner, the prize amount is shared equally between them.

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

5. GLOSSARY

Asset-Backed Securities

Bonds that have underlying assets, often in the form of different types of loan, for example mortgages.

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.

Banknotes and coins in circulation

The total amount of banknotes and coins actually in circulation in society outside the Riksbank. A decrease of this amount means that the banks have returned banknotes and coins to the Riksbank and been paid for this via deposits in their accounts in RIX. The liabilities item banknotes and coins thereby decreases at the same time as the liabilities item in Swedish kronor to the Riksbank's counterparties (deposits via fine-tuning operations or Riksbank Certificates) increases to a corresponding degree.

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.

Basel Committee

Global forum for cooperation on issues relating to bank supervision for supervisory authorities and other bodies responsible for financial stability work.

BIS, Bank for International Settlements

Collaboration body for central banks with its headquarters in Basel.

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.

CEBS, Committee of European Banking Supervisors

Independent organisation founded in 2004 with representatives for supervisory authorities and central banks in the EU. It was replaced by the European Banking Authority (EBA) in 2009.

Clearing house

Type of company within the financial sector that acts as a neutral intermediary in financial transfers and that registers transactions in the administrative and legal senses for payment.

Covered bonds

Bonds in which the bond holder has collateral in certain assets.

Common Equity Tier 1

Consists of equity, which is to say share capital and accumulated non-distributed profits after deductions for certain items such as goodwill and deferred tax assets. It is the capital with the highest quality.

CPI, Consumer Price Index

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

Currency swaps

See Swap agreement.

Deposit facility

See Standing facilities.

Derivative instruments

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.

EBA, European Banking Authority

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

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.

ECB General Council

Consultative body within the ESCB 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.

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 policy of the financial system within the EU.

Euroclear Sweden

Subsidiary of Euroclear 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.

Extraordinary measures

Measures taken by the Riksbank during the financial crisis, for example structural transactions in Swedish kronor, to help the banks gain access to liquidity, ease the workings of the money market and strengthen the impact of monetary policy on the economy.

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.

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, insurance companies and insurance brokers.

Fine-tuning transactions

Transactions that the Riksbank uses to even out fluctuations in the banking system's loan or investment needs with the Riksbank. As a rule, these deposits take place overnight. Since 27 October 2014, the interest rate has been zero per cent for fine-tuning transactions.

Foreign exchange risk

The risk that the market value of assets, measured in Swedish krona, will fall when the krona strengthens against the currencies that the assets are invested in, see VaR.

FSB, Financial Stability Board

International committee that coordinates the work between national authorities and international regulatory bodies in the field of financial stability.

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.

Gold price risk

The risk that the market value of the gold reserve will fall as a result of a fall in the price of gold, see VaR.

IMF, International Monetary Fund

International organisation 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 188 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.

Inflation measure

Statistical measure of inflation such as the CPI or CPIF.

Interest rate risk

Risk that the value of an interest-bearing security will fall due to a rise in market rates, see VaR.

Interest rate swap

See Swap agreement.

LCR, Liquidity Coverage Ratio

Measure of a bank's ability to handle a liquidity outflow over a period of 30 days. In simple terms, a LCR of 100 per cent means that a bank's liquidity reserve is adequate to enable the bank to manage an unexpected liquidity outflow for 30 days without collapsing.

Lending facility

See Standing facilities.

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.

Main operations

Transactions at the repo rate that the Riksbank normally carries out each week. If the banking system has a need to deposit money, the Riksbank issues Riksbank Certificates. If the banking system instead needs to borrow money from the Riksbank, monetary policy repos or loans (against collateral) are used.

Medieakademin

Cooperation project between Göteborgs-Posten newspaper, the University of Gothenburg, Forsman & Bodenfors and TNS Gallup (formerly NFO Infratest) that investigates confidence in social institutions, individual companies and the mass media.

Modified duration

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

Monetary policy

Measures that a central bank takes to maintain price stability in the economy.

Monetary policy operations

The main, fine-tuning and structural operations as well as standing facilities that the Riksbank uses to steer the overnight rate, the shortest market rate on the money market.

Monetary policy repo

Main transaction in which the Riksbank lends money by purchasing securities from monetary policy counterparties. 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 then receives back the funds, and the securities are returned to the original owner.

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 in a stress scenario that covers a period of one year.

Policy rates

Interest rates that a central bank sets for monetary policy purposes.

Price stability

Condition where the prices of goods and services increase only moderately or not at all.

Repo rate

The Riksbank's most important policy rate, see Main operations.

Repo-rate path

Forecast for the repo rate for a number of years ahead which is calculated to lead to the Riksbank attaining its inflation target of 2 per cent and to contribute to generally strong economic development.

Riksbank Certificates

Main transaction, see the section "Balance sheet and profit and loss account", note 16.

Riksdag Committee on Finance

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

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.

Settlement

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.

The SOM-Institute

Centre for the survey and seminar activities conducted jointly by the Department of Journalism, Media and Communication (JMG), the Department of Political Science and the Research Centre for the Public Sector (Cefos) at Gothenburg University.

SNS, Centre for Business and Policy Studies

Politically-independent, non-profit organisation made up of opinion-makers and decision-makers in the private and public sectors.

Standard deviation

Statistical measure that describes the extent to which the different values for a variable deviate from the mean value.

Standing facilities

Banks and certain other financial participants may borrow money from or deposit money with the Riksbank overnight at the repo rate \pm 75 basis points. The interest the counterparty receives when it deposits money with the Riksbank overnight is known as the Riksbank's deposit rate. Correspondingly, the counterparty pays the Riksbank's lending rate if the bank borrows funds from the Riksbank overnight.

Stibor, Stockholm Interbank Offered Rate

Stibor is a reference rate that is determined on a daily basis for eight different maturities and is used in the pricing of various financial contracts in Swedish kronor.

Stress test

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

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.

Transmission mechanism

The process through which monetary policy affects inflation and the economy in general. The process includes interest rate, credit and exchange rate channels.

VaR, Value-at-Risk

Statistical method that describes the maximum potential loss on an investment that may arise with a given statistical certainty (confidence level) during a given period. The method involves historical data being used to obtain a measure of the risk in a specific asset or in a portfolio of assets.

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