

SPEECH



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A year with the new Riksbank Act*

First, a warm thank you to the Stockholm Centre for Commercial Law for giving me the opportunity to speak about the new Riksbank Act, a substantial and important topic.

The new act – formally the Sveriges Riksbank Act (2022:1568) – has now been in force for a year. This is, of course, too short a time to draw any definitive conclusions about how the act is working. But at the Riksbank, we have now had some experience of applying the provisions of the act, and we have been able to analyse the legal requirements in more depth.

The great merit of the new Riksbank Act is that it clarifies a number of conditions relating to tasks, roles and responsibilities, but in my view it also has the weakness of being too detailed in some respects.

Today, I would like to focus on three important topics based on the new act. Above all, I want to talk about the Riksbank's *independence*, what it means and why it is important, but perhaps also to correct some misunderstandings about what independence means. From our independence, there is then a clear link to the two other questions I would like to address: first, *cooperation and dialogue with other authorities and the Government* in the areas of financial stability, emergency preparedness and monetary policy respectively. And after that, I would like to discuss the consequences of independence for the *Riksbank's need for earnings and equity*.

But before going into these topics, I would like to touch on some aspects of the structure of the new act and the Riksbank's mandate.

The Riksbank's objectives, tasks and powers

The new Riksbank Act in some respects expands and clarifies, but it also adds new tasks for the Riksbank. The latter applies in particular to cash management and civil preparedness for payments. I will return to these tasks, but first I would like

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to address two key areas where the basic task has not changed in relation to the Riksbank Act that was in force until 2023.¹ This concerns monetary policy, where the task follows on from EU regulations that were introduced into the Riksbank Act in 1999. But in practice, it also applies to financial stability. Although the previous Riksbank Act did not explicitly state the Riksbank's mandate in the field of financial stability, it was undisputed that the Riksbank had important tasks in this area. The new Riksbank Act gives us an explicit responsibility **to contribute to financial stability**. This responsibility is shared with Finansinspektionen and the Swedish National Debt Office. The three stability-focused authorities each have distinct tasks for safeguarding financial stability.

The Riksbank Act has a structure that sets out **tasks and powers** for monetary policy, financial stability and the other areas of responsibility. This includes a list of the tools allocated to the Riksbank for the respective task and a description of when and how they may be used. The fact that a specific toolbox is linked to each area of responsibility is a central part of the act's structure and aims to increase insight into the Riksbank's activities. The various toolboxes shall be sufficient for the Riksbank to fulfil the specific tasks. But the legislator's intention is also to keep monetary policy and financial stability separate.

To give an overall assessment of the new act, I will start by saying that I think the division between financial stability and monetary policy is basically good. It means that the Riksbank must state more clearly the main purpose of various measures, and it facilitates external evaluation of our measures. In addition, it provides the prerequisites for cooperation with other stability-focused authorities regarding financial stability and preparedness. But at the same time, it must be remembered that virtually all possible measures by the Riksbank have an impact on both financial stability and monetary policy - even if the emphasis varies. It would therefore have been preferable if the tools available to the Riksbank had been the same for both monetary policy and financial stability.

Let me now elaborate on these different aspects.

Boundaries facilitate cooperation

The new Riksbank Act draws a clear boundary between the Riksbank's tasks regarding monetary policy and financial stability. Such a division is good, because monetary policy is an area where the requirement for the Riksbank's independence is strong, while financial stability is an area where responsibility is shared between several authorities. According to the act, the Riksbank's task is to contribute to the stability and efficiency of the financial system and to cooperate with the other two stability-focused authorities and ultimately also with the Government, so that this objective can be achieved. I believe that the joint work is facilitated by the fact that financial stability is now explicitly mentioned and dealt with in a separate chapter in the Riksbank Act. It can even be seen as a prerequisite for effective cooperation in times of crisis.

The reservation of a particular tool for a particular area of responsibility affects *how and when* it can be used. The Riksbank conducts monetary policy on a daily

¹ The Sveriges Riksbank Act (1988:1385).

basis, so these tools must be constantly available (except in a case where exceptional circumstances are required). With regard to financial stability, although the Riksbank must also regularly assess threats to stability and identify risks, but the actual tools, such as liquidity support, may only be used if a "serious shock" has occurred or is likely to occur.

The toolbox for both monetary policy and financial stability includes "providing credit in Swedish kronor and foreign currency against adequate collateral", but the legislator's idea is that the credit should be designed in different ways depending on its purpose. In the case of loans in Swedish kronor motivated by monetary policy, there is a tool for interest-rate management to facilitate the pass-through of the current policy rate. If the loan is needed to counteract a serious shock in the financial system, it is primarily a question of what is known as general liquidity assistance (in either Swedish kronor or foreign currency), and the conditions may then be different.²

The purpose of the measures must be stated

The division between monetary policy and financial stability in the act also means that the Riksbank needs to state the primary purpose of a measure. This is a reasonable requirement, but it is not always easy to fulfil.

I can give a few examples. If the Riksbank injects liquidity into the financial system in a situation where the supply of credit is threatened as the result of, for example, a pandemic, is this then a measure aimed at safeguarding the so-called monetary policy transmission mechanism, or is it intended to reduce the risk of shocks that could threaten financial stability? Or if the krona exchange rate plummets and the Riksbank intervenes to make purchases to support the krona, is the aim to counteract the risk of increased inflation, i.e. monetary policy, or is it to prevent shocks in the financial system, i.e. financial stability?

The answer to the question in these examples is of course: both. Our experience is that the measures the Riksbank takes or considers taking often have both a monetary policy purpose and a financial stability purpose. While changes in the policy rate can be purely monetary policy, various forms of liquidity support or purchases of securities or currency can be both monetary policy and financial stability measures, especially in terms of their effects. The requirement of the Riksbank Act is that the Riksbank must be able to state the *main* purpose of a measure; whether the intervention has primarily a monetary policy or a financial stability purpose. In our communication, we will then also describe what effects a measure can be expected to have in other areas.

The act is a little too detailed

A somewhat larger problem is that the new Riksbank Act prescribes which tools may be used for monetary policy and financial stability respectively, despite the

² In addition to credit motivated by monetary policy and general liquidity assistance for financial stability purposes, the Riksbank is also able to provide emergency liquidity assistance under certain conditions pursuant to Chapter 3, Section 7 of the Riksbank Act. In this case, special loan conditions apply.

tools – providing credit, entering into repo agreements and buying/selling financial instruments – overlapping the two areas. In several respects, the act goes too far in prescribing in detail the conditions under which, and how, the Riksbank may use certain tools.

So why are these legal rules problematic?

Well, in both monetary policy and financial stability, it is essential that the Riksbank has a high level of *preparedness to act* and considerable *freedom to act* within its area of responsibility. The same applies to other relevant authorities in the area of financial stability.

Experience has taught us that it is difficult to anticipate the forms in which threats to price stability and financial stability may emerge. It is possible to identify some vulnerabilities in advance and to endeavour, as far as possible, to strengthen the resilience of the economy and the financial system. But once the danger is there, the Riksbank and other authorities must be able to react quickly and decisively within their respective mandates. The Riksbank Act is based on the idea that it is possible to predict which tools the bank may need to use for which purpose. We think this makes the act difficult to apply. Allow me to give a few concrete examples.

- The Riksbank's possibilities to finance the foreign exchange reserves differ, depending on whether the purpose of the measure concerns monetary policy or financial stability. In both cases, the Riksbank may borrow foreign currency from the Swedish National Debt Office up to an amount equivalent to five per cent of GDP. The Riksbank may also finance the foreign exchange reserves itself by buying and selling foreign currency in the market, but only to finance financial stability measures (general and emergency liquidity assistance). If the foreign exchange reserves have shrunk after being used and it is a question of *restoring them*, the Riksbank may ***borrow the corresponding amount in foreign currency*** only if the reserves have been utilised for financial stability measures. However, this is not permitted if the foreign exchange reserves have been used for monetary policy measures (e.g. foreign exchange interventions). This limitation is unfortunate, and here I believe that the act may need to be amended to ensure the Riksbank is fully prepared to act.
- The Riksbank's possibilities to ***buy and sell securities for financial stability purposes*** to temporarily support systemically important financial markets are unnecessarily limited. If there are exceptional reasons, the Riksbank may buy and sell securities for this purpose. It is good that this possibility is explicitly provided, but it is unnecessarily complicated that the transactions must take place at predetermined prices. Moreover, there is a risk that it will be more expensive to carry out the transactions in this way without achieving any other benefit.

What I am talking about here concerns the conditions for when and how various tools that the Riksbank itself has at its disposal can be used. The Riksbank's criticism of the law thus concerns what we perceive as unnecessary restrictions on the use of tools that only the Riksbank has. With regard to financial stability, it is not a question of the Riksbank acting entirely on its own, but in cooperation with other

relevant authorities. On the contrary, I want to emphasise once again the desirability of cooperation in the area of financial stability.

The Riksbank's measures shall always be proportionate

In this context, I would also like to emphasise the principle of proportionality contained in Chapter 1, Section 8 of the Riksbank Act. According to this, the Riksbank may take a measure only if it can be assumed to lead to the intended result, if the measure is not more far-reaching than necessary, and if the intended result stands in reasonable proportion to the costs and risks that the measure entails for the finances of the Riksbank and the state.³

It is also highly reasonable that the Riksbank should be able to justify and take responsibility for its actions, both with regard to monetary policy and to financial stability. Chapter 11, Section 6, of the Riksbank Act states that: "The Riksbank's decisions shall, to an appropriate extent, contain an explanation." The reasons stated for a decision will include the result the Riksbank intends to achieve, and reference to the provision under which the measure is taken. In concrete terms, as I mentioned earlier, this may involve the Riksbank stating what the main purpose is, for example when purchasing government securities or corporate bonds. It is a good system that forces the Riksbank to be clear. It also makes it easier to evaluate the Riksbank's actions later on.

It is obvious that in retrospect the Riksbank can be criticised both in terms of the clarity of its motives and the effects achieved. We must of course tolerate this, and the debate on the Riksbank's measures contributes to the development of our activities. But we also need full freedom to act to fulfil our statutory tasks.

Cooperation with other authorities

As I have already mentioned, financial stability is the joint responsibility of several authorities: The Riksbank, Finansinspektionen, the Swedish National Debt Office and the Government, mainly in the form of the Ministry of Finance. The contents of the toolbox designated by the Riksbank Act show that the Riksbank's primary contribution consists of providing various types of liquidity support in crisis situations, both to individual credit institutions and to the financial system as a whole. However, the need for liquidity support does not arise in a vacuum but is often due to the risk of financial losses for the institutions concerned. This requires cooperation and exchange of information, perhaps primarily between the Riksbank and Finansinspektionen, but also with the Swedish National Debt Office and the Government. This interaction, for example in the assessment of financial stability risks, is important even under normal circumstances, as a large part of the work on financial stability is about identifying and preventing risks.

³ If a measure entails an intervention in a private interest, Section 5, third paragraph of the Administrative Procedure Act (2017:900) is applied.

Peacetime crisis situations and heightened preparedness increase the need for cooperation

Cooperation with other authorities is also needed in other areas. Chapter 5 of the Riksbank Act gives the Riksbank extended tasks and powers to prepare for peacetime crisis situations and heightened preparedness. These are extremely important tasks, not least in the new geopolitical environment. The Riksbank is not only responsible for maintaining its own operations during peacetime crisis situations and times of heightened preparedness, but also for ensuring that the general public can make payments under such conditions. According to Chapter 5. Section 4 of the Riksbank Act, the Riksbank shall also oversee that companies that are of particular importance for the execution of payments plan and prepare to be able to continue their payment operations during peacetime crisis situations and times of heightened preparedness.

The Riksbank plays a central role in the Swedish payments system. The Riksbank's tasks include providing systems for the settlement of payments by financial companies and authorities and overseeing payment and clearing systems. Given this responsibility, it is natural that the Riksbank also has a contingency responsibility, although some problems have arisen with the division of responsibility because the Government, which is responsible for civil defence, has at the same time wanted to organise authorities under the Government for the same purpose.

In 2022, the Government decided to introduce an emergency preparedness regulation,⁴ which entails a new structure for civil defence in Sweden where 60 authorities under the Government were designated as so-called preparedness authorities.

These authorities are organised by function into preparedness sectors, each of which is led by an authority with responsibility for the sector. Finansinspektionen has been designated as the authority with responsibility for the financial services preparedness sector, which includes the important societal functions of payment intermediation, financial stability, funding and savings, and insurance. A key task of the preparedness sector is to ensure that these societal functions can be maintained as far as possible even in a peacetime crisis or time of heightened preparedness.

Finansinspektionen, as the lead authority, heads up the sector's work on coordinating measures prior to and during peacetime crisis situations and times of heightened preparedness. Finansinspektionen shall also drive forward the work in the preparedness sector, support the preparedness authorities and promote the clarification of tasks and roles in the sector. In addition to Finansinspektionen, the Swedish National Debt Office is included in the financial services preparedness sector.

The essence of the provisions of the Riksbank Act and the emergency preparedness regulation's rules on sectoral responsibility is that payment activities are within the areas of responsibility of both the Riksbank and Finansinspektionen. As

⁴ Regulation (2022:524) on emergency preparedness of state authorities.

the Riksbank is an authority that does not report to the Government but to the Riksdag, it has not been considered possible to give the bank the task of being the authority with responsibility for the sector in civil defence, which would otherwise have been natural. Neither can the Riksbank be formally included in a preparedness sector and subordinated to a sector authority such as Finansinspektionen, as this authority reports to the Government. There is thus an overlap of responsibilities and a risk of work duplication and confusion over which authority should do what in the area of preparedness. It is a good thing that the Government's Payment Inquiry⁵ recently proposed that the division of responsibilities between the two authorities should be clarified in this respect.

The Defence Commission has also observed the overlapping responsibilities between the Riksbank and Finansinspektionen and recently emphasised the importance of there being a functioning structure for planning and preparing for high preparedness and war in the area of payments, and that it is clear how management should be conducted. The Defence Committee said that parallel structures for identical tasks are not efficient and stressed the importance of an urgent solution to the issue.⁶

In any case, very close cooperation between the Riksbank and Finansinspektionen is required to achieve effective and comprehensive preparedness work. A first step in this direction was taken in the agreement on cooperation and preparation for peacetime crisis situations and heightened preparedness concluded between the two authorities in June 2023.

I began my speech by saying that it is a little too early to draw firm conclusions about the new Riksbank Act. I have expressed some views here on the act. To some extent, my judgements are based on practical experience. For example, we have started to build new forms of coordination in the area of financial stability, relying on the new act. Our new and clear preparedness mandate also provides us with a clear legal basis for cooperation and specifying requirements. When it comes to how the act and our tools function in a crisis situation, we - thankfully - do not have any experience and our conclusions remain based on analytical reasoning.

In an overall assessment, I see no need for a review of the act at present, but I think there may be reason to monitor some of the aspects of the act that I have mentioned today and possibly return to them in future reviews

The Riksbank's independence

I would now like to turn to the major topic of the Riksbank's independence. Independence is a principle based on Sweden's commitments under EU law and therefore also features in the new Riksbank Act.

In order to properly discuss what independence means, it is worth briefly reviewing why it exists in the first place. The Riksbank and other central banks have not

⁵ The state and payments SOU 2023:16.

⁶ The Defence Commission's total defence report Kraftsamling Ds 2023:34

always been independent, but over the years, it has become more common to separate monetary policy from direct political influence. Extensive empirical studies and theoretical analyses have shown that independent central banks are better at maintaining low inflation. If governments had direct control over central banks, politicians might be tempted to change interest rates to create short-term economic upturns or use central bank money to finance popular political measures. This could seriously damage the economy in the long term.

The amendment to the Instrument of Government making the Riksbank formally independent entered into force on 1 January 1999. At the time, the Government justified independence on the grounds that it would give monetary policy a long-term perspective that improved the credibility of the price stability objective. It is perhaps worth recalling that the decision on the independence of the Riksbank was taken by the Riksdag and is therefore democratically anchored.

Based on EU law, central bank independence can be said to consist of four different aspects: functional, institutional, personal and financial independence. I want to pay particular attention to two of these aspects, namely financial and institutional independence.

Central banks shall be financially and institutionally independent

The purpose of independence is to protect the Riksbank from political or other pressures and thus enable it to work effectively to achieve its operational objectives.⁷

Financial independence means, among other things, that a central bank must have sufficient financial resources to fulfil independently the tasks required by the TFEU and the Statute of the European System of Central Banks (ESCB) and the European Central Bank (ECB). Member States must not put their national central banks in a situation where this is not possible. If a third party were to be able to directly or indirectly exercise influence over the ability of the NCB to fulfil its tasks, including its operational and financial capacities, this could be in conflict with financial independence.⁸

Another way of expressing it is that a central bank should not be dependent on the political authorities of the Member State to which it belongs.

Institutional independence means that no other authority may determine *how* the Riksbank shall decide on matters relating to the mandate the Riksbank has under the Instrument of Government, including formulating and implementing monetary policy and managing the foreign exchange reserves. Neither may the Riksbank seek or take instructions from anyone in the areas of responsibility stipulated in the Instrument of Government. This so-called *ban on instructions* should

⁷ See, for example, the judgement of the Court of Justice of the European Union of 13 September 2021 in Case C41/21, paragraph 93.

⁸ ECB Convergence Report 2022, p. 26 f. See also the judgement of the Court of Justice of the European Union of 13 September 2021 in Case C41/21, paragraph 97.

be given the same meaning as in the corresponding provisions of the TFEU I just referred to.

Independence in monetary policy leaves room for dialogue

As I have already mentioned, the independence of the Riksbank does not impede cooperation between authorities in the field of financial stability. But how does it relate to monetary policy? It is important, I think, to note that the ban on instructions does not prevent a national central bank, such as the Riksbank, and other bodies, such as the Government via the Ministry of Finance, holding a dialogue on, for example, the conditions for monetary policy.

However, the dialogue must not be designed in a way that affects the independence of the members of the Executive Board. The ECB and the European Commission have considered that an explicit statutory obligation for an NCB to consult third parties in advance of a central bank decision gives the third party a formal mechanism to influence the final decision. Such an arrangement is therefore incompatible with the Treaty and the Statute. An obligation for the Riksbank to inform the minister appointed by the Government *before* important monetary policy decisions has also been considered to conflict with central bank independence under EU law. Such a provision existed in the previous Riksbank Act but has been amended to be in line with the requirements of the TFEU, see Chapter 2. 7 of the Riksbank Act, which states that the Riksbank shall promptly inform the Minister appointed by the Government of important monetary policy decisions that the bank *has taken*.

The bottom line is that the ban on instructions does not prevent the Riksbank and, for example, the Ministry of Finance from having a *dialogue* and an *exchange of information* related to the authorities' respective areas of responsibility. The authorities may therefore share information and assessments that facilitate or may even be necessary in the work of the other authority. For example, this may involve how the Riksbank and the Ministry of Finance view the most important factors driving inflation now and in the future, or which shocks in the macroeconomy are permanent or temporary.

The need for dialogue is probably greater when the policy rate is close to the lower bound, when further interest rate cuts no longer stimulate demand in the economy. In such a situation, the Riksbank has fewer effective tools to use in an expansionary policy. Fiscal policy may then need to play a greater stabilisation policy role to counteract economic downturns and also to maintain confidence in the inflation target than has been the case in recent decades.

Other conditions of independence

So much for the formal requirements for the independence of the Riksbank. But let me also say a few words on how I perceive the *informal conditions* for our independence.

In general, it is extremely important that the Riksbank acts with a high degree of transparency and that our actions are continuously scrutinised and evaluated. I see transparency and scrutiny as crucial conditions for maintaining the confidence

of the general public and politicians in the Riksbank's independence and mandate, and also for maximising the efficiency of our operations.

Long before the new Riksbank Act was enacted, studies considered the Riksbank to be one of the most transparent central banks in the world.⁹ The new act, including Chapter 11, contains provisions aimed at further increasing the conditions for transparency and openness in the Riksbank's operations. These include reports to the Riksdag's Committee on Finance on monetary policy, financial stability and cash management, and extensive public information.

The legendary head of the Federal Reserve, Paul Volcker, once said that central bank independence does not exist in a political vacuum. What he meant was that independence is not a perpetual right for the central bank. Not all countries have independent central banks and where they do exist, as in Sweden, their independence is relatively recent. Moreover, independence can be called into question and is sometimes too. Not least recently, a debate has arisen in Sweden about whether it is reasonable for an institution such as the Riksbank to be able to make interest rate decisions with very large economic effects on households and companies without what is called democratic control.

I am the first to agree that the Riksbank must be able to justify its monetary policy and withstand both scrutiny and criticism from various quarters. But it is a misconception that independence is somehow undemocratic.

The General Council of the Riksbank, appointed by the Riksdag, monitors the work of the Executive Board and the activities of the Riksbank. The General Council has a supervisory function in relation to the Executive Board, which is the body responsible for the Riksbank's activities and which thus manages its independence. This supervisory function has been strengthened by the new Riksbank Act. The five members of the Executive Board are appointed by the General Council of the Riksbank. Appointments are for a period of five or six years.

Through its supervisory function and power of appointment, the decision-making procedures of the Executive Board and the fixed-term mandates, the General Council has instruments to hold the members of the Executive Board accountable for the decisions taken. The power of appointment is important because it gives the Riksbank a democratic basis and, at the same time, counteracts the risk of independence being abused. The Riksbank Act raises the bar in terms of accountability, and it may be possible to go even further in the future.

In addition, the Riksdag Committee on Finance has the important function of following up and evaluating the Riksbank's activities based on the reports on monetary policy and other activities that the bank must submit to the committee. The

⁹ The Riksbank was already considered in 2010 to be the most transparent central bank in the world (see [Central Bank Transparency and Independence: Updates and New Measures \(ijcb.org\)](#)), largely as a result of the Riksbank's own initiatives. The same judgement on the Riksbank was also given in 2019 (see [Trends in Monetary Policy Transparency: Further Updates \(ijcb.org\)](#)). In 2014, the Riksbank was declared winner of a prize by Central Banking Publications, the Central Banking Transparency Award. (see [Riksbank awarded transparency prize | Sveriges Riksbank](#))

Swedish National Audit Office also examines the Riksbank's activities. Last but not least, the Riksbank is closely scrutinised by the media.

The independence of the Riksbank is thus democratically decided and protected, among other things, by the Treaty on the Functioning of the European Union (TFEU). But in principle, independence could be removed even if it is not something that an individual EU Member State can decide on its own. Let me reflect a little on how I see this risk.

I believe that the risk of independence being curtailed and ultimately lost is greater if the central bank starts to interpret its mandate very broadly and acts without first carefully considering whether the mandate really provides for the measures being taken. A particular danger may lie in getting involved in areas where there appears to be a strong consensus among politicians and the public. You never know if and when the political winds will change and the central bank's behaviour may be questioned afterwards.

I believe that a relatively narrow interpretation of the central bank's mandate is reasonable in order to safeguard the independence required for a central bank to fulfil its primary task of maintaining price stability.

Financial independence and the Riksbank's equity

Financial independence is partly expressed in the fact that the Riksbank has assets that are separate from the assets of the state.¹⁰ The Riksbank shall also be independent in the management of this asset base, with the idea being that it shall generate sufficient return to finance the bank's operations. Furthermore, the Riksbank decides on its own budget, which means that the bank decides on its own costs. Precisely because of this financial independence, the Riksbank is not funded by government appropriations. Its own assets and the fact that the Riksbank decides on its own budget mean that it differs from other administrative authorities that are essentially financed by appropriations or fees.

This financial independence is also reflected in the provisions of the Riksbank Act on how the Riksbank is to be financed.¹¹ According to the act, financial independence can be achieved by the Riksbank independently financing its own operating costs in the long term through the return generated by the management of the assets. According to the legislator, the Riksbank's equity should be sufficiently large to ensure this.¹² Self-financing occurs when the net interest income, i.e. the difference between the Riksbank's interest income from assets and interest expenses for liabilities, covers the operating costs.¹³ Equity, as well as outstanding

¹⁰ This distinction between the state's assets and those of the Riksbank is necessary in order to follow regulations in EU law on, for example, the ban on monetary financing.

¹¹ Government Bill 2021/22:41, p. 63.

¹² Government Bill 2021/22:41, p. 149.

¹³ The difference will also cover any financial provisions or reversals made by the Riksbank. In addition, the Riksbank needs to make a certain profit to ensure that its equity increases in line with inflation and to enable the Riksbank to build up a capital buffer that can cover risks of various kinds.

banknotes and coins (so-called cash supply), provides interest-free funding of assets that generate returns for the Riksbank.¹⁴ This cost-free capital thus makes a positive contribution to net interest income. In case of losses or deficits, the equity is reduced and therefore the possibility of self-financing. The cost-free capital therefore also needs to include a buffer to absorb unforeseen losses.¹⁵

The legislator weighed the risks of too much equity against the risks of too little and concluded that a real value-hedged target level of SEK 60 billion is appropriate.

The Riksbank Act therefore stipulates that the Riksbank's equity may amount to a maximum of SEK 60 billion, unless the Riksdag decides otherwise, and that this target level shall be adjusted upwards with CPI inflation each year so that the capital retains its real value.¹⁶ An amount corresponding to two-thirds of the target level, i.e. SEK 40 billion, shall be the basic level of the Riksbank's equity.

If equity becomes too small, i.e. if it falls below one third of the target level, the Riksbank shall submit a petition to the Riksdag to restore the equity. The petition shall be for an amount that restores equity to the base level of SEK 40 billion, unless unrealised gains on the balance sheet justify restoration to a lower level. If required to secure the Riksbank's ability to be self-financing in the long term, the petition may correspond, at most, to an amount that restores equity to the target level.¹⁷

I see it as natural and appropriate for the Riksbank to continue to be financed by the return on an asset portfolio. This is also the intention of the rules I just mentioned. However, as I will discuss shortly, the capital levels prescribed by the act are not obviously sufficient to provide the Riksbank with sustainable self-financing in the current situation.

Falling bond values have created a need for equity

After a period in which the Riksbank's assets and liabilities grew as a result of various monetary policy and stability measures, financial risks on the balance sheet increased. These included the risks of falling market values for holdings of bonds in Swedish kronor and foreign currency if interest rates were to rise. As we all know, inflation rose in 2022, both rapidly and in a way that few central banks and other forecasters had anticipated, including the Riksbank.¹⁸ The Riksbank and other central banks raised policy rates at a rapid pace to curb inflation and prevent it from becoming entrenched at a high level that could jeopardise the price stability objective. The unexpected rate rises also affected longer-term market rates, leading to a decline in the market value of bonds. This, in turn, led to a large reported loss for 2022. This meant that the Riksbank's equity amounted to SEK

¹⁴ Banknotes and coins in circulation are to be regarded as a debt the Riksbank has to the public, a debt on which the Riksbank does not pay interest. The Riksbank can invest the value of the banknotes and coins in circulation in assets that provide a return. This return, minus the cost of producing and handling banknotes and coins, is known as seigniorage.

¹⁵ Government Bill 2021/22:41, p. 149.

¹⁶ Chapter 8, Sections 9-10 of the Sveriges Riksbank Act.

¹⁷ Chapter 8, Section 15 of the Sveriges Riksbank Act

¹⁸ See, for instance, *Account of Monetary Policy 2022*.

–18.1 billion. This is considerably less than a third of the target level for equity and, in accordance with the Riksbank Act, the Riksbank shall submit a petition to the Riksdag for the restoration of equity.

We are currently in the process of finalising the Riksbank’s annual accounts. The preliminary result for the 2023 financial year is a profit of around SEK 16 billion. After allocation of profits, the Riksbank’s equity is expected to amount to SEK -2 billion. The Riksbank will use this amount as a starting point in March 2024, when the bank decides on the petition to the Riksdag on the restoration of equity.

In the law, as I mentioned, the main rule is that equity must be restored to an inflation-adjusted base level, which, with indexation according to the CPI for December 2023, means SEK 41.8 billion.¹⁹ This will be the starting point for the amount in the Riksbank’s petition on equity restoration.

Long-term self-financing for the sake of financial independence

A starting point for the Riksbank Act is thus that the Riksbank can achieve financial independence by using its cost-free capital to obtain sufficient interest income to fund its own administrative costs. Cost-free capital, as I mentioned above, includes the cash supply and equity.

The legislator thus assessed that SEK 60 billion, adjusted for inflation, is an appropriate target level for the Riksbank’s equity and that two-thirds of this is a reasonable basic level of equity. This assessment was based on calculations made by the Riksbank Committee, including the assumptions that the cash supply stays unchanged in nominal terms, that the Riksbank’s administrative costs increase with an inflation rate of 2 per cent per year from a starting level of around SEK 850 million and that the annual real return on the Riksbank’s financial assets is 1 per cent.²⁰ Several of these assumptions were uncertain, as the Riksbank Committee also emphasised, and, since the Riksbank Act began to be drafted, the conditions for the Riksbank’s long-term self-financing have changed.

One change is that the Riksbank’s costs have increased as a result of new statutory tasks and new needs in our area of activity. In 2023, the Riksbank’s administrative costs amounted to about SEK 1.4 billion.

This changes the conditions for the Riksbank’s long-term self-financing, as the framework for equity is calibrated to create, on average, a net interest income that covers administrative costs of just over half this amount. Under current administrative costs and even taking into account the fact that the fees charged to banks and other participants in the Riksbank’s settlement system for payments

¹⁹ Government Bill 2021/22:41, p. 153. See the Riksbank’s Annual Report 2023, expected to be published on 20 February 2024, for the calculations of the inflation-adjusted target and base level.

²⁰ The calculations and justifications in the Riksbank Committee’s final report “A new Sveriges Riksbank Act”, SOU (2019:46) are based on the development of the Riksbank’s finances up to the end of 2018 and the projections of developments that were relevant at that time. The final report uses the term “operating costs”. It is clear from the description and calculations that these are equated with what the Riksbank refers to in its annual reports as “total administrative costs”.

have increased slightly since 2018, we estimate that the Riksbank's annual revenue needs to increase by a further SEK 500 million per year for the Riksbank to maintain the same financial conditions as assumed by the Riksbank Committee.

Uncertainty about our ability to restore capital by ourselves

Even if one disregards the fact that costs have risen, there are other reasons to question the stability of the Riksbank's long-term self-financing. This includes the ability to compensate for temporary losses on equity by ourselves, meaning without restoration of capital by the Riksdag. The framework assumes that the Riksbank can normally generate sufficient surpluses to build up equity back to the target level of SEK 60 billion if the capital has been reduced by up to SEK 40 billion due to temporary losses.²¹ The law and preparatory work do not specify how quickly the losses must be covered and the target level restored. But the longer it takes for the Riksbank to rebuild its capital under its own steam, the greater the risk that further restoration of equity will be required if new losses arise due to unfavourable developments in interest rates and exchange rates.

It is uncertain at what rate the Riksbank can rebuild its equity on its own. For example, if the Riksbank makes new losses on its bond portfolios that lead to a reduction in equity, the Riksbank's interest-free financing would decrease and its ability to self-finance would deteriorate. However, the largest risk for deteriorating self-financing is linked to the evolution of the cash supply. This is determined by public demand for banknotes and coins and peaked around 2009/2010 at over SEK 110 billion. Since then, the cash supply has almost halved and, in recent years, it has remained at a level of around SEK 60 billion. In this respect, Sweden (and Norway) differ from many other countries where the central banks are much better placed to use interest-free financing from the cash supply to generate earnings that are better able to absorb temporary losses without the need for capital injections.²²

It is difficult to predict future developments in Sweden, but it is likely that the cash supply will continue to fall over the long term, particularly in real terms. In any case, the Riksbank deems it unlikely that it will be possible to increase earnings capacity via this source and thus improve the possibilities of building up equity capital under its own steam.

It is also difficult to know what return the Riksbank's assets can provide. The Riksbank Committee's assumption of a long-term real interest rate of 1 per cent may seem cautious from a longer historical perspective. But before inflation picked up in 2022 and interest rates rose, the real interest rate had been significantly below 1 per cent for a number of years. Opinions are divided on the extent to which the

²¹ As long as equity is greater than SEK 20 billion, adjusted for inflation, the Riksbank is normally assumed to be able to build up capital to the target level of SEK 60 billion, adjusted for inflation. If capital falls below SEK 20 billion, it must be restored to the basic level of SEK 40 billion according to the framework.

²² From an international perspective, Sweden and Norway stand out in that the ratio of the cash supply to nominal GDP has been on a clear downward trend (which in Sweden has lasted for several decades) and is now at a very low level. In the euro area and United States, the cash supply is growing at a higher rate than GDP, which could be explained by the widespread use of the euro and US dollar in other parts of the world and the fact that the United States does not invalidate its banknotes. In the United Kingdom, Denmark and New Zealand, for example, the cash supply is growing roughly in line with GDP.

structural forces that have kept interest rates low will continue to be important in the future.²³ Quite simply, it is difficult to know how the real interest rate will develop in the future.

Over the past year, the Riksbank has calculated a large number of scenarios for the development of results in preparation for the petition to the Riksdag on the restoration of equity. These show that earnings at present, partly for accounting reasons, are sufficient to provide a surplus and start to rebuild equity towards the target level - if the Riksdag decides to restore equity to the base level of SEK 40 billion, adjusted for inflation. However, the rate of capital formation is too slow to be considered a sufficient capacity for long-term self-financing. The Riksbank is in the process of reducing the size of its balance sheet but this takes time. Despite the measures we have put in place to mitigate risks, the large balance sheet still creates uncertainty. If interest rates and exchange rates were to develop unfavourably, losses may arise that could result in the Riksbank having to make a further petition to the Riksdag on the restoration of equity.

Diversified funding - an alternative to increasing the target level of equity

A large balance sheet and a relatively small amount of cost-free capital thus make the Riksbank's financial results more sensitive to variations in interest rates and exchange rates and thus asset values. Different assumptions about developments in the long and medium term are of great importance for our conclusions about the Riksbank's ability to finance itself in the long term. This uncertainty may justify strengthening this ability. One possibility would be for the Riksbank to request, in its spring petition to the Riksdag, that equity be restored to the target level of SEK 60 billion. However, even such a capital increase would not guarantee self-financing and would not eliminate the risk of further capital requirements if new losses were to occur.

In his report ten years ago, Harry Flam proposed an explicit and quantified recapitalisation rule in which the right of the Riksbank to receive capital injections from the state via the Swedish National Debt Office was enshrined in law.²⁴ However, this model was not included in the Riksbank Committee's proposal or in the final legal text.

However, the Riksbank Committee noted that there is a risk that the Riksbank's cost-free capital may become too small for various reasons and considered that recurring needs for capital injections could be regarded as contrary to the principle of financial independence.²⁵ The Committee therefore concluded that the

²³ See for example "[Drivkrafter bakom globala trender i den neutrala räntan \[Driving forces behind global trends in the neutral interest rate\]](#)" by Henrik Lundvall, [Appendix 2 to Långtidsutredningen \[Long-term survey of the Swedish Economy\] SOU 2023:87- Regeringen.se](#) (only in Swedish).

²⁴ Riksbankens finansiella oberoende och balansräkning [Financial independence and balance sheet of the Riksbank], SOU series 2013:9 (only in Swedish)

²⁵ In both the Riksbank Committee's final report and the bill for a new Riksbank Act, a continued reduction in cash volumes was emphasised as the main risk for such a development. However, the Committee also identified lower returns on the asset portfolio, persistently higher interest rates on non-free short-term debt, prolonged borrowing to strengthen the foreign exchange reserves and rising operating costs as possible reasons why the Riksbank's cost-free capital may become insufficient.

Riksbank's equity needs to be so large that the probability of a need for capital injections can be considered low. In addition, the Committee favoured a system whereby the Riksbank submits a petition to the Riksdag to raise the target level beyond SEK 60 billion if the bank assesses that cost-free capital is no longer large enough to ensure the long-term capacity for self-financing. The possibility of making such a petition was also noted in the proposal for the new Riksbank Act.²⁶

As I see it today, the question of how to secure the Riksbank's self-financing will need a long-term answer in a few years at the latest. In the short term, earnings are sufficient to cover costs. In the longer term, earnings are insufficient. The risks on the balance sheet, although already reduced, will continue to be reduced in the coming years, mainly as a result of the reduction in the size and remaining maturity of the Swedish bond portfolio. This reduces the immediate need for capital as a risk buffer but, should the Riksbank again need to buy securities for monetary policy or stability-related reasons, the need will increase again.

One possible long-term solution is to request an increase in the target level for equity to a level above SEK 60 billion and for the Riksdag to decide on the increase and a capital injection that replenishes equity up to the new target level.

Another option would be to create a new source of income for the Riksbank to complement the current ones. Such a solution may have certain advantages, for example that a smaller proportion of government funds would need to be tied up in the Riksbank. The Riksbank is currently investigating such supplementary sources of income and expects to be able to present a preliminary assessment of the possibilities during the year.

My most important messages

Let me conclude this speech by repeating my most important messages.

The new Riksbank Act draws a line between financial stability and monetary policy that is basically positive. It means that the Riksbank must more clearly state the main purpose of various measures and justify the measures, which facilitates external evaluation of the Riksbank's actions. In addition, it provides the prerequisites for cooperation with other stability-focused authorities regarding financial stability and preparedness. Especially in the area of preparedness, cooperation is very important in today's security policy situation.

However, the Riksbank Act is altogether too detailed on certain points, for example with regard to the strengthening of the foreign exchange reserves and the purchase of securities for financial stability purposes. It would also have improved the Riksbank's freedom to act if the available tools had been the same for both monetary policy and financial stability.

The independence of the Riksbank is a key principle under EU and Swedish law and is ultimately about maintaining the credibility of the policy's price stability objective. The independence of the Riksbank has been decided by the Riksdag and is thereby democratically anchored. In addition, the Riksbank Act contains several

²⁶ SOU (2019:46), p.1234 and Bill (2021/22:41), p.150.

instruments for scrutinising and controlling how the bank's operations are conducted.

Independence has several aspects. *Institutional independence* means that no other authority may determine how the Riksbank should decide on issues related to the task it has according to the Instrument of Government, including monetary policy and the management of the foreign exchange reserves. Neither may the Riksbank seek or take instructions from anyone. However, this so-called ban on instructions does not prevent a *dialogue* between the Riksbank and other bodies, such as the Government via the Ministry of Finance, for example on economic developments and the conditions for monetary policy.

In order to be *financially independent*, the Riksbank needs to have sufficient equity and earning power to be self-financing. The losses incurred by the Riksbank in 2022 as a result of rising interest rates have meant that the bank currently has too little equity. In accordance with the provisions of the Riksbank Act, the Riksbank will therefore make a petition to the Riksdag in the spring to restore equity. In a slightly longer perspective, earnings need to be further strengthened as the Riksbank's operations are now more extensive than before and thus more resource-intensive. The challenge is greater in Sweden than in many other countries where central banks receive large amounts of interest-free funding through the larger amounts of cash supply (seigniorage).