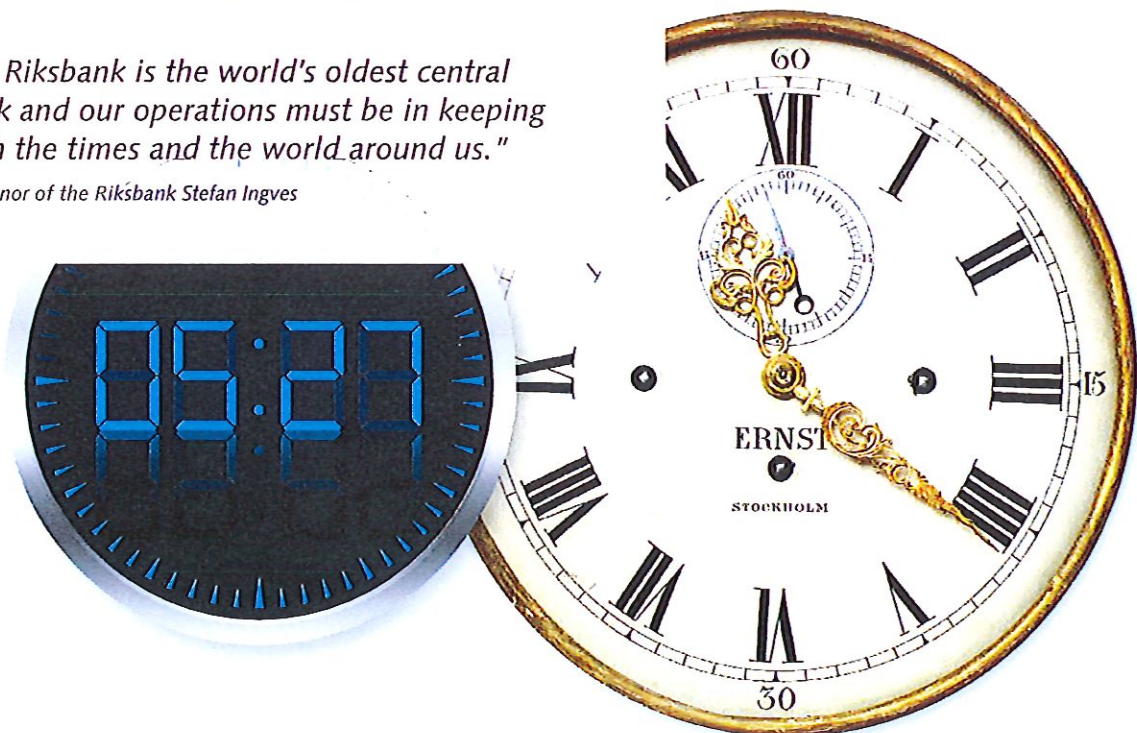




## ANNUAL REPORT 2014

*"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*





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

## Composition of the balance sheet, earnings and seignorage

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.

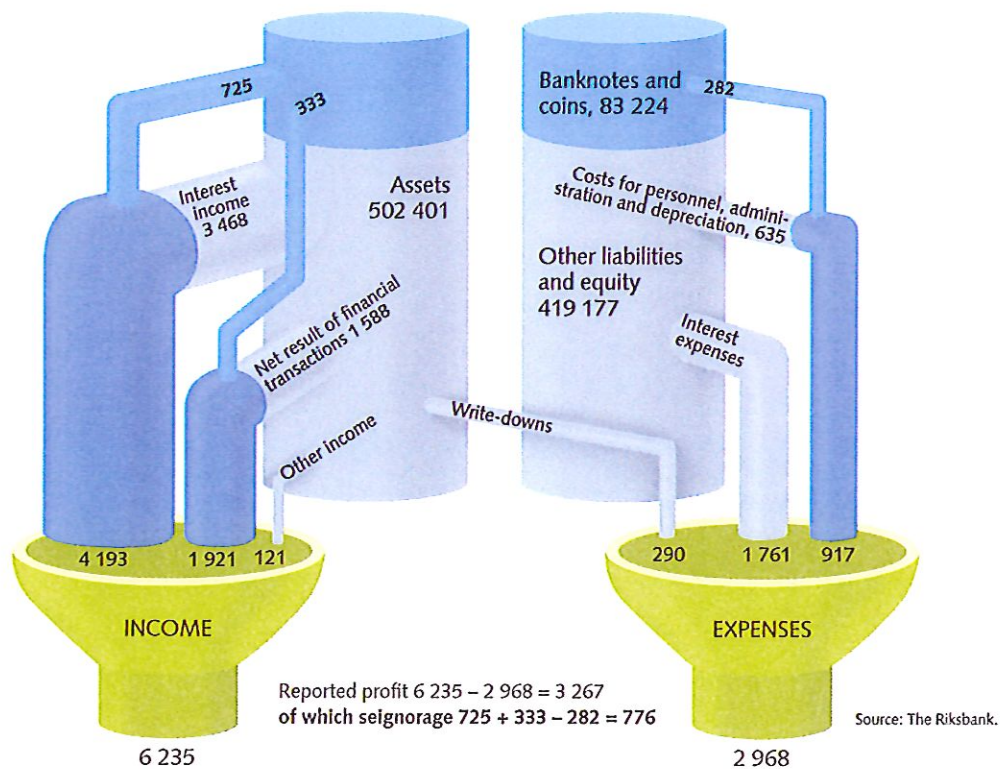
The *result on which the dividend to the State is based* comprises both realised and unrealised results linked to interest rates and securities, but excludes all results relating to gold and currency. In 2014, this result amounted to SEK 2 723 + 6 296 = 9 019 million. The size of the dividend itself 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 seignorage?

The Riksbank's *seignorage* 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 seignorage.

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.