

INVESTMENT POLICY FOR THE GOLD AND FOREIGN EXCHANGE RESERVES

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Investment policy for the gold and foreign exchange reserves

Content and purpose

This policy describes the principles that govern the management of the Riksbank's gold and foreign exchange reserves. The policy has the following objectives.

1. To determine how the Riksbank should manage the gold and foreign exchange reserves, and to make it clear how responsibility for management should be allocated.
2. To determine how decisions on the strategic allocation of the gold and foreign exchange reserves should be prepared as well as general principles for these decisions.

The policy establishes such guidelines for the management of the gold and foreign exchange reserves as the Executive Board shall decide on in accordance with Chapter 9, Section 2 of the Sveriges Riksbank Act (2022:1568). Further guidelines for asset management can be found in the Riksbank's Financial risk policy.

Target group

Those members of staff in the Markets Department who are directly or indirectly involved in the management of the gold and foreign exchange reserves.

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1 Introduction

The Sveriges Riksbank Act sets out the activities that the Riksbank may conduct and the powers that the Riksbank has. The Sveriges Riksbank Act contains, among other things, provisions on the Riksbank's asset management. According to Chapter 9, Section 1 of the Sveriges Riksbank Act, the Riksbank shall manage its assets to fulfil its tasks and powers and generate sufficient income to finance its activities. The assets shall be managed with low risk and take into account the Riksbank's status as a central bank and the purpose of the asset holdings. In the management, particular weight shall be attached to how sustainable development can be promoted without the Riksbank compromising the requirements specified above.

According to Chapter 9, Section 2 of the Sveriges Riksbank Act, the Executive Board shall decide on guidelines for asset management. These guidelines are formulated within the framework of Chapter 9, Section 1 of the Sveriges Riksbank Act. This policy describes the guidelines that apply in connection with the management of the Riksbank's gold and foreign exchange reserves.

1.1 Underlying regulatory framework

The following laws and regulations govern the Riksbank's investments in gold and foreign exchange.

- Sveriges Riksbank Act (2022:1568).
- Rules of Procedure for Sveriges Riksbank.

1.2 Definitions

The following definitions are used in this policy.

Foreign exchange reserves: foreign currency and assets in foreign currency that the Riksbank shall hold in accordance with Chapter 10, Section 1 of the Sveriges Riksbank Act.

Gold reserve: assets in gold held by the Riksbank to fulfil its tasks and powers.

Gross total return: the sum of interest income and changes in market value, including exchange rate effects, of the Riksbank's financial assets, converted into Swedish kronor.

Net total return: gross total return less the cost of the Riksbank's financial liabilities, converted into Swedish kronor.

2 Roles and responsibilities

The **Executive Board** decides on guidelines for the Riksbank's asset management and on the strategic allocation of the gold and foreign exchange reserves.

The **Markets Department** is responsible for

- preparing the Executive Board's fundamental decisions regarding the management of financial assets and liabilities included in the Riksbank's gold and foreign exchange reserves, and
- preparing and implementing the management of financial assets and liabilities included in the Riksbank's gold and foreign exchange reserves in accordance with the policies, rules and decisions of the Executive Board.¹

The **Chief Risk Officer** is responsible for the independent control and reporting of the Riksbank's financial risks as specified in the Riksbank's Financial risk policy.

Further rules on roles and responsibilities in the management of the gold and foreign exchange reserves can be found in the Riksbank's Financial risk policy.

3 Basic principles for management of the gold and foreign exchange reserves

Basic principles for management of the gold and foreign exchange reserves are as follows:

- The management of the Riksbank's financial assets shall be in accordance with Chapter 9, Section 1 of the Sveriges Riksbank Act and be conducted efficiently.
- The management of the gold and foreign exchange reserves contributes to the Riksbank's ability to fund itself when the net total return is positive.
- Transactions and business relationships shall be documented in the manner and form that is customary in the respective market. The division of responsibility between the parties shall be reasonably balanced with regard to the status of the Riksbank as a central bank, and the documentation shall be adjudged to function in accordance with Swedish law.

The Riksbank's management of the gold and foreign exchange reserves is otherwise subject to the underlying regulatory framework, including the Riksbank's Financial risk policy.

¹ See point 5.2.1 of Sveriges Riksbank's Rules of Procedure.

4 Management of the gold and foreign exchange reserves

4.1 General provisions on management

The Riksbank's gold and foreign exchange reserves are managed on the basis of the Riksbank's contingency needs. Contingency needs are assessed by the Financial Stability Department and the Monetary Policy Department in a separate procedure (see Section 4.3 below for details).

The framework for the operational management of the gold and foreign exchange reserves is decided by the Executive Board in a strategic allocation. Among other things, this strategic allocation involves a trade-off between contingency preparedness, return, risk and sustainability. The Markets Department prepares and submits strategic allocation proposals to the Executive Board in accordance with this policy. The Markets Department may make various proposals for trade-offs and compositions that fulfil contingency needs.

4.2 The gold reserve

The Riksbank's gold reserve is stored by the central banks of the United Kingdom (Bank of England), Canada (Bank of Canada), the United States (Federal Reserve Bank of New York) and Switzerland (Swiss National Bank), as well as at the Riksbank's own depot in Sweden.

According to the Sveriges Riksbank Act, the gold reserve can fulfil a function in connection with the Riksbank's participation in international payment systems.² Under the Sveriges Riksbank Act, in certain cases, the gold reserve can also be used to pay for and conduct credit transactions with other central banks, the Bank for International Settlements (BIS) and the EU medium-term financial assistance facility.³ The gold reserve can also fulfil a payment reserve function.

The Riksbank can lend gold to increase the return on the gold reserve (so-called gold deposits).⁴ The management of the gold reserve is decided by the Executive Board in the strategic allocation.

² See Chapter 6, Section 6 of the Sveriges Riksbank Act.

³ See Chapter 10, Sections 6 and 7, Sveriges Riksbank Act.

⁴ See Chapter 6, Section 6 of the Sveriges Riksbank Act.

The management of the gold reserve may include such assets and financial instruments as are specified in the Annex to the Investment policy for the gold and foreign exchange reserves.

4.3 The foreign exchange reserves

The composition of the foreign exchange reserves shall take into account the Riksbank's contingency needs so that the assets in the foreign exchange reserves can be used, if necessary, to provide liquidity support, for example to banks operating in Sweden, intervene on the foreign exchange market, and fulfil Sweden's commitment in the IMF's international trading system for Special Drawing Rights (SDRs).⁵

The Riksbank's estimated contingency need for foreign currency provides the starting point for the design and management of the foreign exchange reserves. It forms the basis for the assessment of the size of the foreign exchange reserves and for the selection of currencies and assets included. From a contingency perspective, these assets need to be sufficiently liquid and carry limited credit risk and market risk.⁶ Contingency needs are assessed by the Financial Stability Department and the Monetary Policy Department in a separate procedure.

The foreign exchange reserve shall meet the liquidity requirements defined in the Riksbank's Financial risk policy.

The Markets Department may propose different trade-offs and compositions that fulfil the contingency needs of the strategic allocation proposal.

The management of the foreign exchange reserve may include such assets and financial instruments as are specified in the Annex to the Investment policy for the gold and foreign exchange reserves.

4.4 Strategic allocation of the gold and foreign exchange reserves

Once a year, or whenever necessary, the Executive Board decides on the strategic allocation of the gold and foreign exchange reserves, which is to say the composition of the gold and foreign exchange reserves. The strategic allocation

⁵ See Government Bill 2021/22:41, p. 156. The foreign exchange reserves can also be used for certain other purposes, see for example Chapter 2, Section 4, fourth paragraph of the Sveriges Riksbank Act. Since January 2023, new lending to the IMF has been funded by borrowing from the Swedish National Debt Office. The commitment relating to Special Drawing Rights (SDRs), where the Riksbank can be required under the IMF Articles of Agreement to purchase SDRs against foreign currency, continues to be managed by drawing funds from the foreign exchange reserves.

⁶ This applies to the risk from a contingency perspective, where the risk is measured in foreign currency, as the value of the foreign exchange reserves measured in Swedish kronor is irrelevant in this context.

also analyses the Riksbank's long-term need for earnings and the build-up of equity. However, the strategic allocation decision only relates to the composition of the gold and foreign exchange reserves.

The Markets Department is responsible for preparing proposals for the Executive Board decisions on strategic allocation. The Markets Department is also responsible for implementing the management of the gold and foreign exchange reserves in accordance with the Executive Board's decision on the strategic allocation, including the development of benchmarks reflecting the strategic allocation.

The proposed strategic allocation for the gold and foreign exchange reserves is based on a three-step analysis:

- In **step one**, the main and alternative asset price scenarios proposed for use in the process are reviewed. Based on the main scenarios, an overview is presented of the expected development of the Riksbank's total balance sheet, earnings requirement and build-up of equity.
- In **step two**, an initial allocation of currencies and assets is developed for the gold and foreign exchange reserves. This allocation only considers contingency currencies to find the composition that is expected to provide the best conditions for achieving the desired long-term earnings, risk and equity performance, given the different scenarios from step one.
- In **step three**, the asset allocation of the gold and foreign exchange reserves is optimised with a focus on return given the desired level of risk, based on the analysis in step two. This involves analysing multi-currency and multi-asset class portfolios based on market pricing and a shorter time horizon (less than one year).

Step three forms the basis for the proposed decision on strategic allocation. The draft decision on strategic allocation shall include:

- How the foreign exchange reserves shall be
 - distributed across different currencies,
 - distributed across different asset types, and
 - exposed to interest rate risk (modified duration) by currency.
- How large the gold reserve shall be (by weight).
- Hedging considerations, the amount of hedging, how it is allocated across currencies, and how it is to be maintained (see also section 4.5 below).
- How sustainability has been considered (see further section 4.6 below).
- How the risk in the strategic allocation has been assessed in accordance with the Riksbank's Financial risk policy and the Sveriges Riksbank Act.
- Any tactical mandate, including applicable limits.
- Rebalancing frequency (see further section 4.7 below).

- How the decision will be implemented and any implementation period.
- Other factors as directed by the Executive Board or as deemed relevant.

The purpose of the tactical mandate is to create an opportunity to increase earnings and to maintain market knowledge and operational readiness.

The proposed decision must indicate the expected return and risk resulting from the strategic allocation. It must also indicate the level of return and risk over different time horizons. The return and risk should be presented both from a balance sheet perspective (net total return) and for the gold and foreign exchange reserves separately (gross total return). This can be described through quantitative measures and scenario-based stress tests.

4.5 FX hedging of the gold and foreign exchange reserves

The foreign exchange exposure of the foreign exchange reserves can be reduced by hedging. Hedging has an impact on risk, yield and contingency and is a factor to be considered in accordance with the management principles for the gold and foreign exchange reserves. Hedging decisions shall be taken by the Executive Board as part of the strategic allocation decision.⁷

4.6 Sustainability

The preparation of decisions on strategic allocation shall be based on the principles of sustainability stated in the Riksbank's Sustainability Policy. Asset management should include identifying, analysing and managing sustainability-related financial risks and monitoring and reporting the carbon footprint of the foreign exchange reserves.

A decision on the strategic allocation of the gold and foreign exchange reserve assets shall apply the following principles of sustainability, unless otherwise stated in the decision.

- Investments should be made in countries that are signatories to the Paris Agreement and that are in compliance with said agreement. However, investments may always be made in government bonds deemed necessary to fulfil the Riksbank's contingency needs (regardless of whether these countries have signed the Paris Agreement).
- When investing in bonds issued by states, provinces or equivalent administrative areas, only issuers whose carbon intensity does not exceed the country's average carbon intensity may be selected.

⁷ Decision on hedging part of the foreign exchange reserves, 19 September 2023 (DNR 2023-00863)

- Investments may be made in sustainable bonds⁸ if this is considered consistent with the trade-off between contingency, return, risk and sustainability that applies to the strategic allocation.

Furthermore, the Riksbank shall monitor and report carbon-related metrics according to the Eurosystem's standard for central banks.

4.7 Rebalancing

The composition of an investment portfolio changes over time, both because of market movements and because the maturities of the holdings decrease. It therefore needs to be adjusted with some regularity to restore it to its original distribution (known as rebalancing). A decision on the strategic allocation of the gold and foreign exchange reserve assets shall be rebalanced according to the following principles, unless otherwise specified in the decision:

- Rebalancing to the decided values in the strategic allocation should be carried out regularly.
- In the period between rebalancing dates, deviations in currency allocation, asset allocation, and interest rate risk as a result of market movements and the gradual reduction of maturities are allowed.

4.8 Follow-up and reporting

The Head of the Markets Department is responsible for continually following up the performance and risk of the gold and foreign exchange reserves, as well as compliance in management. This follow-up shall be reported to the Executive Board on a monthly and four-monthly basis.

The report shall cover the gold and foreign exchange reserves as a whole, including a specific account of how the tactical mandate delegated to the Markets Department by the Executive Board has been used. The tactical mandate shall be evaluated by comparing the return and risk of the gold and foreign exchange reserves with the applicable benchmark.

Every four months, the report shall also include a comparison of the yield and risk of the gold and foreign exchange reserves with the assumptions on which the strategic allocation decision was based. The report shall describe how a different duration, other assets than government bonds, and more currencies than just contingency currencies have contributed to the return and risk in the strategic allocation. This will be achieved by comparing the return and risk of the strategic

⁸ Sustainable bonds refers to green and other sustainable bonds according to the ICMA standard. ICMA refers to the International Capital Market Association.

allocation with a portfolio consisting only of government bonds in the contingency currencies.

4.9 Infringements

Infringements of the rules in the Annex to the Investment policy for the gold and foreign currency reserve etc. to this policy shall be reported by the Head of the Markets Department in accordance with the Riksbank's Financial risk policy.

5 Prohibition of monetary financing

The Sveriges Riksbank Act and the Treaty on the Functioning of the European Union (TFEU) prohibit so-called monetary financing. The prohibition means, for instance, that the Riksbank may not grant credit to EU institutions and other bodies governed by public law or public undertakings in the Member States. Nor may the Riksbank acquire debt instruments from them on the so-called primary market.⁹ The details of the prohibition are specified in a regulation which also sets out certain exceptions.¹⁰ For example, the Riksbank is authorised to purchase certain securities on the primary market from certain participants in another Member State, if the purchase is made solely for the purpose of managing the foreign exchange reserves.

The prohibition of monetary financing shall be taken into account in all gold and foreign exchange reserve investments.

6 Borrowing of foreign currency by the Swedish National Debt Office

The Executive Board may decide to borrow foreign currency to maintain the foreign exchange reserves.¹¹ If the Executive Board decides to borrow, the Swedish National Debt Office shall raise loans for the State for this purpose.¹² The Riksbank and the Swedish National Debt Office have entered into an agreement that lays down the forms for the authorities' cooperation with regard to borrowing for the foreign exchange reserves.^{13 14}

⁹ See Chapter 1, Section 6 of the Sveriges Riksbank Act and Article 123 of the Treaty on the Functioning of the European Union.

¹⁰ See Article 2.2 of Council Regulation (EC) No 3603/93.

¹¹ See Chapter 10, Sections 2 and 3, Sveriges Riksbank Act.

¹² See Chapter 10, Section 4 of the Sveriges Riksbank Act.

¹³ Överenskommelse om samarbete avseende upplåning till Riksbankens valutaserv [Agreement on cooperation regarding borrowing for the Riksbank's foreign exchange reserves], 1 February 2024 (DNR 2024-00188).

¹⁴ According to section 5.2.1 of the Riksbank's Rules of Procedure, the Markets Department is responsible for the preparation of borrowing in foreign currency for the Riksbank's foreign exchange reserve, etc.

7 Compliance

The Head of the Markets Department is responsible for ensuring compliance with this policy by verifying that the basis for strategic allocation decisions, follow-up and reporting is in accordance with this policy.

8 Entry into force

This policy enters into force on 1 January 2026 and replaces the Investment policy for the gold and foreign currency reserve (DNR 2025-00202).