SPEECH

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What is money?*

The Riksbank is Sweden's central bank and a public authority under the Riksdag (the Swedish parliament). We shall contribute to a well-functioning economy by ensuring that inflation – the general rate of increase in prices in the economy – remains low and stable, that the financial system is stable and efficient, and that payments can be made both in normal times and during crises and periods of heightened alert. We are also the only body authorised to issue cash in the form of banknotes and coins.

Why have we been given these tasks? Why are they important for the functioning of society? To answer these questions, one must understand what money is, the functions it fulfils, how it is created, and the Riksbank's role in the monetary system.

The question of the nature and characteristics of money has become increasingly topical over the past decade. Traditional money – cash – has increasingly been replaced by digital money, and we have also seen the emergence of new money-like digital assets in the form of what are known as crypto-assets[1]. Furthermore, an increasing number of central banks have discussed the possibility of introducing central bank digital currencies – a form of digital cash issued by the central bank – which are intended to be accessible to everyone. The Riksbank has

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[1] A digital representation of a value or right that can be electronically transferred and stored using blockchain technology. Central banks generally refer to cryptocurrencies as crypto-assets because they usually do not fulfil the basic functions of money.

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previously explored the possibility of such a currency, an e-krona, and the European Central Bank (ECB) is working on developing a digital euro.[2]

Today, I shall outline, in broad strokes, what money is, the functions it serves, how it has evolved throughout history, and how it is created in a modern economy. But I will also say a few words about what money might look like in the future. I would also like to tell you about what we at the Riksbank are doing to maintain a well-functioning monetary system in Sweden.

The various functions of money

So what is money? It contains information about with whom value is to be found, and how much. Take, for example, a baker who sells bread and is paid in cash. The money then serves as proof that the baker has contributed something of value to society and he/she can use it to buy other goods and services. Paradoxically, money makes it possible to 'forget' history. When someone later receives the same money, they do not need to know that it originally came from the sale of bread or other previous transactions. Money is sufficient proof of value in itself.

A philosopher might emphasise that money is a social institution, a mutually agreed social convention, which addresses the issue of trust between strangers so that they can interact with one another in economic life. A historian would probably be more likely to point out that money can be regarded as an expression of the exercise of power. Imagine a king who funds an army by paying soldiers' wages with newly minted coins, whilst at the same time demanding that his subjects pay their taxes with those very coins. As everyone has to pay tax, this creates a demand for these particular coins, which enable the soldiers to buy equipment and food with them.[3] The soldiers can use the coins, and others can accept them, as they need them to be able to pay tax. Issuing coins and demanding them to be paid in as tax thus gives the king power over the economy.

I think that there are valuable insights to be gained from all of these perspectives on money. We economists usually talk about money having to fulfil three basic functions. It shall (i) serve as a store of value, (ii) constitute a means of payment and (iii) serve as a unit of account in the economy.[4] In a highly readable speech by

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[2] ECB, 2026, Digital euro, (retrieved 8 September 2026): https://www.ecb.europa.eu/euro/digital_euro/html/index.en.html

[3] Sveriges Riksbank, 2022, *What is money and what is the role of the state in the payments market?* hhttps://www.riksbank.se/globalassets/media/rapporter/pov/artiklar/engelska/2022/221216/2022_2-what-is-money-and-what-is-the-role-of-the-state-in-the-payments-market.pdf

[4] There is some variation in the terminology used in the economic literature. The function as a means of payment is sometimes referred to as *medium of exchange* and the function as a unit of account as *unit of value*, although this does not entail any real difference in substance.

Nathanaël Benjamin at the Bank of England, he makes the point that most of what central banks do, in various ways, is aimed at maintaining or strengthening the three different functions of money.[5] Let me explain.

Money is a form of token of value and is intended to **serve as a store of value**. The holder can choose either to spend the money today or to save it and spend it at a later date. If we are all to have confidence in money, it is desirable for it to retain a stable value over time. This is one of the main reasons why most central banks today have some form of price stability target. For example, the Riksbank has an inflation target which has ensured that the value of the krona has not fallen sharply over time by keeping the general rate of price inflation at a moderately high level during the 30-odd years since it was introduced. In countries with high inflation, the domestic currency ceases to function as a store of value, and historically it has often been replaced by, for example, the US dollar, or been pegged to gold.

Money should **serve as a means of payment** and be widely accepted as payment when households and businesses buy and sell goods and services. That is why currencies are often linked to a specific country or region, such as the Swedish krona in Sweden or the euro in the eurozone countries. At the Riksbank, we work to ensure that payments will be safe, efficient and accessible. A key part of this is that we provide a system through which the banks can make large-value payments in money issued by the Riksbank, what is known as central bank money: the RIX system. Almost all payments made in society are processed via RIX.

Finally, money must **act as a unit of account** that can be used to set prices of goods and services. All prices of goods and services in a society should be expressed in a common unit, so that it is easy to compare the costs of different items. In Sweden, we usually state prices in Swedish kronor. However, for money to function as a unit of account, one krona must be worth the same amount regardless of which bank it is held in and regardless of whether or not the bank is stable. In other words, there must be a uniformity in money, which is usually referred to as *singleness of money*. All forms of money can be exchanged for money issued by a central bank such as the Riksbank, that is, central bank money. This means that the Riksbank acts as an anchor in the system. I will return to this important question later on.

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[5] Bank of England, Nathanaël Benjamin, 2026, [It's all about the role of money](https://www.bankofengland.co.uk/speech/2026/july/nathanael-benjamin-speech-at-omfif): https://www.bankofengland.co.uk/speech/2026/july/nathanael-benjamin-speech-at-omfif

From beautiful shells to ones and zeros in your bank account

Money has existed in various forms for thousands of years, but is in fact a radical social innovation that facilitates economic exchange between people and promotes growth and prosperity. As the renowned historian Yuval Noah Harari puts it:

"Money was created many times in many places. Its development required no technological breakthroughs – it was a purely mental revolution. It involved the creation of a new inter-subjective reality that exists solely in people's shared imagination."[6]

So, as Harari points out, it was our ability to create a shared conception of money that was the real innovation.

Throughout history, people have used many different objects as money – everything from beautiful shells and large stones to coins made of gold, silver and copper. When the printing press was invented in the mid-15th century, it became possible to print paper money; since then, the digital revolution has made possible today's money, which consists almost exclusively of digital information, ones and zeros, which are stored and transferred electronically.[7] Money is, at its core, a system for transferring information; it is therefore only natural that people have used the most effective technology available for this purpose. The evolution from stone coins and banknotes to today's digital money has therefore gone hand in hand with new technological advances.[8]

In the past, the value of money often lay in the material itself. A copper coin, for example, had an intrinsic value because the metal itself was valuable. Money was, quite literally, a matter of weight. As long as it was possible to verify and trust the coin's authenticity, its value did not, therefore, really depend on any issuer or intermediary. However, over time, it became impractical and burdensome to base the entire economy on precious metals and coins. In the Riksbank building, for example, we have a copper coin from 1644 that weighs 20 kg.[9] The next step was

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[6] Yuval Noah Harari (2018), Money, p. 7: SD Books.

[7] Sveriges Riksbank, 2018, Economic Review 3, 2018: What is money and what type of money would an e-krona be?
https://www.riksbank.se/globalassets/media/rapporter/pov/artiklar/engelska/2018/181105/20183-what-is-money-and-what-type-of-money-would-an-e-krona-be.pdf

[8] I. Angeloni, D.Gros, 2025, Money in Crisis: The Return of Instability and the Myth of Digital Cash: Cambridge University Press

[9] Sveriges Riksbank, The world's largest coin | Sveriges Riksbank, (retrieved 8 September 2026):
https://www.riksbank.se/en-gb/about-the-riksbank/history/historical-timeline/1600-1699/the-worlds-largest-coin/

a promissory note in the form of a claim to a specific quantity of a specific type of metal. The first banknotes therefore represented something tangible. When we had a gold standard between 1873 and 1931, with an interruption during the First World War, they could, for example, be redeemed for a fixed weight of gold.[10]

As trade developed, banks and governments gradually began to develop a system in which the value of money was based, rather than on an underlying metal value, on promises for the future and on trust – in the government, in the banking system and in the economy as a whole. Such trust forms the cornerstone of today's money, which is also known as fiat money. The word 'fiat' is Latin and roughly means 'let it be done'. Fiat money has no intrinsic value; rather, it derives its value from being accepted as a means of payment. The vast majority of currencies in today's world are fiat currencies and have no link to, for example, gold.[11]

When people talk about money, many still instinctively think of cash, and newspaper articles about money are often illustrated with our beautiful banknotes and coins. However, cash accounts for a very small – and, moreover, steadily declining – proportion of the total money supply in Sweden: approximately 1.1 per cent.[12] The vast majority of the money in circulation is entirely digital and held in the bank accounts of households and companies.

To summarise its historical development, one could say that money has evolved from being something physical, heavy and tangible, with an intrinsic value, to banknotes that have no material value in themselves, and today it consists primarily of digital information. Another way of putting it is that the underlying 'commodity' of money has shifted from gold to trust. Our fundamental mission at the Riksbank is to safeguard and maintain confidence in the Swedish currency by ensuring that our money has a stable value and that we have a reliable and efficient monetary system.

To truly understand today's monetary system, we also need to clarify what types of money exist today and who creates them.

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[10] Sveriges Riksbank, Historical timeline (retrieved: 8 September 2026): https://https://www.riksbank.se/en-gb/about-the-riksbank/history/historical-timeline/#p-1900, and Bank of England, 2025, What is money?: https://www.bankofengland.co.uk/explainers/what-is-money

[11] European central bank, What is money?, (retrieved 8 September 2026): https://www.ecb.europa.eu/ecb-and-you/explainers/tell-me-more/html/what_is_money.en.html

[12] Ekonomifakta, Andelar sedlar och mynt i Sverige (Percentage banknotes and coins in Sweden - only in Swedish), (retrieved 8 September 2026): https://www.ekonomifakta.se/sakomraden/finansiell-ekonomi/pengar/pengar_1218055.html

There is public money and private money

Today's money can be divided into money issued by the state and privately issued, regulated money. Money issued by the state is what we call central bank money. The central bank is the only authority that can create and issue state money. This consists of cash and the banking system's reserves, which are the funds that private banks hold in their accounts in the RIX system at the Riksbank. If the Riksdag decides that the Riksbank may issue an e-krona, this would also be a form of central bank money. Today, we can, to put it simply, refer to privately issued regulated money as 'bank money'. This is mainly the money held in the bank accounts of households and companies.

Many people believe that private banks lend out money that they themselves have borrowed from the central bank. That is not how it works. Instead, the vast majority of our Swedish kronor are created when banks grant loans to individuals and companies. When someone takes out a mortgage to buy a flat, the money is created by the private bank at the time the loan is granted. The central bank money that banks hold in their accounts with us in the RIX system acts instead as the lubricant of the monetary system when money changes hands between different banks. However, it is important to point out that banks can also borrow money from the Riksbank in various situations.

To gain a thorough understanding of how money is created, we now need to distinguish between money, claims and liabilities. A physical 100-krona note from the Riksbank has a value guaranteed by the Riksbank. Such a banknote is a form of claim on the Riksbank, and is therefore part of the Riksbank's liabilities. Under the current system, banknotes cannot be redeemed for gold, for example, but the Riksbank nevertheless guarantees that they will serve as a functioning means of payment. The banknote retains its value in other ways, including the fact that it is considered legal tender, that there are legal requirements for major banks to supply facilities for withdrawal and deposits of cash, and that the Riksbank is required by law to ensure there is sufficient access to cash throughout Sweden. Ensuring that cash can be distributed, received, sorted and cashed in guarantees that it can be used throughout the economy.[13] The 100-krona note therefore fulfils the three functions we described above: as a store of value, a means of payment and a unit of account.

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[13] The cash chain includes deposits and withdrawals, transport, sorting, counting and storage of cash. The chain begins and ends with the Riksbank, which issues and redeems cash. In between, it is mainly private actors such as banks, the bank-owned company Bankomat AB and the cash-in-transit company Loomis Sverige AB that handle cash. The amount of cash in circulation is demand-driven – the Riksbank meets the demand for cash based on information we receive from the various participants in the cash chain.

By the same logic, the balance you have in your bank account — that is, your own money in the bank — is a claim against your bank; in other words, it is a debt that the bank owes you. In practice, it's a promise that you'll be able to use that value whenever you need it to buy something.[14]

The difference between cash and bank money is a bit like the difference between holding a cinema ticket in your hand and having an email in which someone promises that you'll be able to go to the cinema later. Both usually work very well, but they aren't exactly the same thing. Cash, just like a physical banknote, is a physical token of value that you hold in your hand, but which you could, for example, lose or have stolen. Bank money is a credit balance held with the bank, in the same way that an email is a promise. Both are based on you trusting them. That is why it matters who made that promise to you. Central bank money in the form of cash is safer than bank money precisely because it constitutes a claim on the central bank. This is because the central bank cannot go bankrupt, but will always be able to create new money to settle its debt. Banks, on the other hand, can go bankrupt, which means that bank customers' claims – that is, the money they have in the bank – are at risk of being lost. [15] That is why cash is a safer form of money than money held in bank accounts. This also applies to the central bank money that banks hold in their RIX accounts.

In good times, we rarely give much thought to the difference between different forms of money, as the system is based on trust. However, in times of financial turmoil or financial crises, it becomes clear that central bank money is regarded as particularly safe. If a private bank finds itself in crisis, its customers may become uncertain as to whether the bank will be able to repay its debt to them. History is therefore full of instances of people rushing to withdraw their money – what are known as *bank runs*– where fears that the bank will be unable to meet its obligations lead to many bank customers rushing to withdraw their money at the same time.

This is particularly interesting as new forms of money emerge, both in the form of digital central bank money and private solutions. It raises the question of what actually makes money safe and reliable. Ultimately, it's all about trust – in the issuer, in the fact that the value will be preserved, and in the fact that the money will actually be accepted by others. However, new forms of money, new

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[14] If money is created by your taking out a mortgage, the money paid into your account represents the bank's debt to you. At the same time, your mortgage is recorded on the bank's assets side as one of the bank's assets.

[15] Under the Swedish deposit insurance scheme, the state reimburses savers up to SEK 1,150,000 per person and institution if the bank or institution where they have their savings goes bankrupt. It is a way of bolstering confidence in bank money in times of uncertainty (such as a banking crisis).

technology and new issuers may mean that we need to find new ways of maintaining that trust.

How the digital money of the future should be divided between the public and private sectors is an issue that central banks have been discussing intensively in recent years. Among the private initiatives, the crypto-asset that has attracted the most attention is probably *Bitcoin*. However, I do not wish to devote much attention to Bitcoin in this speech, as it cannot actually be classified as money according to any of the three criteria above. Instead, I would like to briefly highlight *stablecoins*, which have attracted a great deal of attention in recent years.

A stablecoin is a type of crypto-asset designed to maintain a fixed value against a currency, such as the US dollar or the krona.[16] They therefore serve as a means of payment, and can also function as a store of value and a unit of account. The reason stablecoins have attracted so much attention is that they are based on technology that enables faster and more automated payments, particularly across national borders. At the same time, many stablecoins today cannot, strictly speaking, be called money either. For example, they are difficult to use as a means of payment in everyday life. Nor can they always be redeemed at a fixed value against the currency to which they are linked. This means that, in practice, they have so far functioned more as financial assets than as money, just like other crypto-assets.[17] However, they are generally more stable and are often used to buy and sell Bitcoin, for example. So far, the market has been completely dominated by stablecoins pegged to the US dollar, such as Tether (USDT) and USD Coin (USDC). Nearly 98 per cent of the total amount of stablecoins in circulation were dollar-pegged at the start of 2026.[18] This naturally means that, for the time being, they are not particularly useful in Sweden.

How is money created?

To understand the difference between different forms of money, one can study how they are created. To put it simply, it can be summarised as follows:

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[16] Not all stablecoins have managed to maintain a stable value. One example is TerraUSD (UST), a stablecoin that lost its peg to the US dollar in May 2022 and collapsed, resulting in significant losses for investors. Sveriges Riksbank, 2022, ANALYSIS – Crypto-assets and their impact on financial stability: https://www.riksbank.se/globalassets/media/reports/fsr/in-depth-analyses/english/2022/220524/crypto-assets-and-their-impact-on-financial-stability-in-depth-analysis-in-the-financial-stability-report-2022_1.pdf

[17] Bank for International Settlements (BIS), 2026, Anchoring trust in money: innovation beyond stablecoins: https://www.bis.org/publ/arpdf/ar2026e3.htm

[18] Bank for International Settlements (BIS), Aldasoro, Frost and ITO, 2026, The impact of stablecoins on the international monetary and financial system: https://www.bis.org/publ/bppdf/bispap170.htm

- Central bank money is created when banks obtain new reserves in their accounts at the central bank. This happens, for example, when the central bank buys financial assets, such as bonds, from the banks, or grants loans to the banks.[19][20]
- Private money is created when the banks grant loans to households and companies.

Our money is therefore essentially a matter of balance sheets, in which assets and liabilities are mirror images of one another. Understandably, not everyone finds this sort of financial reporting the most exciting. But we need to look into this in more detail to understand how money is created, used and, ultimately, disappears from the economy.

To illustrate how money is created in the banking system, let's take a simple example. Let us suppose that Alice borrows SEK 50 from her bank, Bank A. When the loan is approved, the money is paid directly into Alice's account at the bank. In the process, new money is created in the economy, in the form of what we call bank money. The bank's balance sheet expands, as the bank acquires both a new asset (the loan to Alice) and a new liability (the deposit in Alice's account). At the same time, Alice's financial situation also changes: She incurs a debt to the bank of SEK 50, but also gains an asset of SEK 50 in her account. As a result of the loan being paid out, the money supply in society has increased by SEK 50 – money that did not exist before the loan was created.

If we then look at what happens when Alice spends the money, we can first imagine that she buys a sofa from Adam, who has an account at the same bank. In that case, the money is simply transferred between different accounts at the bank, and the bank's debt changes hands. The total volume of money remains unchanged, however – the money, or the claims on the bank, simply changes hands from Alice to Adam.

We can also assume that Alice buys a sofa from Benjamin, who has his account at another bank, Bank B. In that case, Bank A can no longer make the payment simply by transferring money between accounts within the bank. Instead, a transfer between banks is required.

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[19] When the Riksbank issues cash, no new money is normally created in the economy. This is because the cash is paid out of the banks' reserves held with the Riksbank. One form of central bank money (the banks' reserves) is exchanged for another (cash). This means that the Riksbank's debt to the banks remains the same.

[20] The central payment system through which the central bank's digital money circulates between the banks and the central bank is a closed system. This means that if the central bank increases its lending, deposits will increase by the same amount.

This is where the Riksbank comes into the picture, as we act as the banks' bank. All Swedish banks hold accounts, either directly or via agent banks, with the Riksbank in our RIX system, and the banks use these accounts to make payments to and from one another.

When Alice pays SEK 50 for the sofa, Bank A debits the corresponding amount from her account. At the same time, Bank A instructs the Riksbank to transfer SEK 50 from Bank A's account with the Riksbank to Bank B's account. Once the transfer has been completed, Bank B can credit SEK 50 to Benjamin's account. A Swish payment is processed immediately, whilst a bank transfer takes one working day.

For Alice, this means that the balance in her account decreases, but her debt to the bank remains the same. For Bank A, the asset remains in the form of the loan to Alice, but the bank's liability to Alice disappears when her account is emptied. At the same time, Bank A's holdings at the Riksbank decrease, as it has transferred funds to Bank B.

For Bank B, the transaction means that the bank's assets increase as its balance with the Riksbank increases. At the same time, the bank's debt to Benjamin increases, as his account is credited with SEK 50.

This can be summarised as Alice's claim on Bank A being replaced by Benjamin's claim on Bank B. At the same time, central bank money is transferred from Bank A to Bank B. However, the total money supply remains unchanged – there are still SEK 50 in the banking system that were created through Alice's loan – and the amount of central bank money also remains unchanged. What has changed, however, is who holds the money and, consequently, the claims.

Finally, it is time to see what happens when Alice repays her loan. We assume that, after one year, she will repay half the loan – that is, SEK 25 – using money she has earned and which is already in her account at Bank A. When she makes this repayment, her debt to the bank is reduced by SEK 25. At the same time, the bank's assets decrease by the same amount, as the loan to Alice is now smaller.

As she pays using money from her bank account, her account balance is also reduced by SEK 25. This means that the bank's debt to Alice decreases by the same amount. This results in the bank's balance sheet becoming smaller – it shrinks on both the assets and liabilities sides.

An important point is that the amount of money in the economy decreases when loans are repaid. SEK 25 of Alice's original loan of SEK 50 is deducted from her finances when she makes a repayment. That money is therefore not passed on to anyone else, but simply ceases to exist.

It probably sounds strange that money is created and disappears just like that. It is easy to mistakenly conclude that the banks create money entirely out of thin air. That is certainly how it looks in our example.

Money is no longer backed by gold, silver or any other valuable commodity, so what, then, underpins it and guarantees its value?

Well, fundamentally, there is a link to the 'real' economy. When people take out loans, money is created. But the loan does, of course, have to be repaid, and is only granted once the bank has carried out a thorough credit check. The 'real' money in this scenario is the borrower's future income.[21] The whole point of a loan is, of course, that you can use the income you expect to receive in the future today, in return for paying a fee in the form of interest. This solves the problem that income and expenditure often occur at different times. You might need money today, but your income won't come in until later. Bank loans make it possible to bridge that time gap by bringing purchasing power from the future into the present.

Although money is not, as it were, created out of thin air, bubbles can of course form, leading to loans being granted and money being created far too readily. We have seen this happen in situations where the stock market or the property market soars before subsequently crashing. These situations are mainly due to the banks granting loans on too weak a basis and being far too optimistic about the borrower's future income and ability to repay. This means that money is created without there being any fundamental value underpinning it.

If large sums of money are lent to individuals and companies, this increases their ability to both consume and invest. However, if the economy cannot produce goods and services to meet that demand, prices rise. This means that the value of money decreases – we end up with higher inflation. This clarifies why the Riksbank works to keep inflation low and stable. The Riksbank's policy rate determines the interest rates on our deposits and loans to the banks, and thus the conditions for the banks and the interest rates at which they offer deposits and loans to households and companies. If inflation becomes too high or there is a risk of the economy overheating, we on the Executive Board raise the policy rate. One of the effects of an interest rate rise is that total lending – and thus the amount of bank money created in the economy – falls slightly. If we manage to keep prices stable, there will be no major problems if the banks increase their lending. But if

[21] A large proportion of bank loans are granted on the basis that some form of security is provided in the event that the borrower is unable to meet their repayment obligations. Much of the money created can therefore be said to be based on real assets. For households, for example, it is often a question of their homes serving as collateral.

prices rise rapidly because the banks have lent out large amounts of money, well, then one could actually say that the money is, to some extent, created out of thin air – or rather, turns into thin air – as it merely leads to higher prices and erodes purchasing power.

The invisible mechanisms behind the value of money

Hence, it must be possible to convert money between different forms and issuers without losing value, for example when depositing cash into an account or transferring money between accounts at different banks. This usually works smoothly and automatically, without the person carrying out the transaction even realising it.

What was not immediately apparent when Bank A's SEK in Alice's account were converted into Bank B's SEK in Benjamin's account is that this was done with the aid of the Riksbank's RIX system. Without RIX, it would not have been possible to instantly convert Bank A's SEK into Bank B's SEK. By ensuring that the banks always have access to central bank money, we help to ensure that the payment system runs smoothly and is secure for those who use it. What goes on behind the scenes is never apparent to those making the payments, but the RIX system is absolutely crucial to the functioning of Sweden's monetary system.

The Riksbank also supports the banking system in other ways. For example, the banks can deposit money with the Riksbank and earn interest. The banks can also borrow from the Riksbank, and we can offer them emergency loans if they experience liquidity problems. However, for the payment system to run smoothly, more is needed. Banks are subject to extensive EU regulation, national regulation and supervision by Finansinspektionen (the Swedish Financial Supervisory Authority). For example, there are capital adequacy requirements designed to safeguard financial stability and prevent banks from going bankrupt. The Swedish National Debt Office's deposit guarantee also provides a financial safety net for individual bank customers.[22] This entire system ensures, together with the work of the Riksbank, that a Swedish krona in one bank can always be used to make a payment and exchanged for another Swedish krona.

We often take it for granted that, for example, Nordea SEK are worth exactly the same as Swedbank SEK, but this is actually not necessarily the case. The Riksbank and other public and private sector organisations are working actively to ensure that this principle is always upheld. However, history provides several examples of

[22]G20, 2025, The Past and Future of Money: s.9
https://group30.org/images/uploads/publications/G30_Future-of-Money_RPT_Final.pdf

problems that have arisen when money has not had a uniform value. We shall therefore now first travel back to 18th-century Sweden and then to 19th-century America.

Sweden in the 18th century – state money of varying value

In 1789, the Swedish National Debt Office was established, primarily to finance the Swedish state's wars.[23] The National Debt Office raised funds for the Government by issuing bonds and promissory notes. They gradually came to be used as money. At the same time, there was also the Riksbank, which was already issuing banknotes backed by silver – these were known as riksdaler banco. Sweden therefore effectively had two different currencies:

- riksdaler riksgälds (National Debt Office), which constituted a claim against the Swedish National Debt Office
- riksdaler banco, which was a stable currency pegged to silver.

The problem was that people began to value money differently. The banknotes issued by the Riksbank were considered more secure, whilst the National Debt Office notes lost value. The then King Gustav III sought to strengthen the status of the National Debt Office notes by decreeing that loans taken out in banco notes could be repaid in riksgäld notes. But then the lenders suffered heavy losses, as the money they received in return was worth less than the money they had lent out.

Together with the monetary policy pursued at the time, this contributed to growing discontent with the King. Johan Anckarström, who would later murder Gustav III, belonged to one of the groups that suffered financially as a result of these decisions.

This example shows how problems arise when people no longer trust the value of money. When different forms of money are valued differently, this gives rise to uncertainty, conflict and mistrust in the economy. It was not really until the Scandinavian Monetary Union of 1873, when the krona replaced the riksdaler, that we achieved true monetary uniformity in Sweden, as the coins could then be exchanged for gold.[24] Finally, in 1904, the Riksbank was also granted a monopoly on issuing banknotes in Sweden.

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[23] Sveriges Riksbank, "Anckarström shoots the King", (retrieved 8 September 2026): https://www.riksbank.se/en-gb/about-the-riksbank/history/historical-timeline/1700-1799/anckarstrom-shoots-the-king/

[24] Sveriges Riksbank, 2022, What is money and what is the role of the state in the payments market?: https://www.riksbank.se/globalassets/media/rapporter/pov/artiklar/engelska/2022/221216/2022_2-what-is-money-and-what-is-the-role-of-the-state-in-the-payments-market.pdf

USA in the 19th century – a discount on money held by private banks

A similar problem arose in the United States during the 19th century. At that time, the country lacked both a strong central bank and a single national currency. Many private banks issued their own banknotes, but their value depended, in principle, on the extent to which people trusted the bank backing them.[25] [26] A banknote from a stable bank could be accepted at face value, whilst a banknote from an unreliable bank could be traded at a discount, as it risked becoming worthless if the bank went bankrupt.

This made payments complicated. Shopkeepers were obliged to keep special handbooks to assess the value of different banknotes. For example, a ten-dollar banknote issued in one state could be worth USD 9.90 in another state and USD 9.40 in a third.

In 1864, the state banks' right to freely issue banknotes was abolished and many of them were forced to close. At the same time, a new category of banks was created, *national banks*. They were still privately owned but were only permitted to issue banknotes backed by federal government bonds, which were government-issued and risk-free. That legal requirement meant that banknotes were of equal value in all states. This also made the state the guarantor of a secure payment system, even though there was no central bank in the United States until just over 50 years later.

The US example illustrates why modern economies gradually developed central banks, a monopoly on the issuance of banknotes, common currencies, banking regulation and deposit guarantees. The aim was to make money more standardised so that ordinary people would not have to judge the quality of each banknote themselves.

The issue of trust always recurs

The examples from 18th-century Sweden and 19th-century USA lead to an important conclusion: it is crucial that everyone trusts that money has the same value throughout society and for everyone.

As I mentioned earlier, historically speaking, the value of money has often been linked to something physical, such as silver or gold, which helped to instil greater

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[25] Sveriges Riksbank, 2018, Why was the Riksbank granted a monopoly on banknotes?: https://www.riksbank.se/globalassets/media/rapporter/pov/artiklar/engelska/2018/181105/20183-why-did-the-riksbank-get-a-monopoly-on-banknotes.pdf

[26] Gorton and Zhang, 2021, Taming Wildcat stablecoins, pp. 939-949. https://lawreview.uchicago.edu/sites/default/files/2023-04/03_Zhang%20%26%20Gorton_ART_Final.pdf

confidence in it among people. However, during the 20th century, those links gradually disappeared. This made it even more important that there were institutions capable of maintaining confidence in the value of money. It is therefore also essential that there is confidence that the central bank and other key players will put well-balanced regulations in place and ensure that the system functions properly.

There is a traditional view that, before money existed, people lived in pure barter economies, where they simply exchanged goods directly with one another. However, in modern research, this view is now considered to be far too simplistic.[27] It seems that, from an early stage, in addition to money in the form of precious metals, people used credit, promises and debts – in other words, they carried out transactions based on trust. Money appears to have developed as a kind of collective memory or shared ledger of economic interactions, making it easier to measure, transfer and regulate debts.

Both barter and the use of gold and silver in economic transactions appear to have been more common when the parties involved had less trust in one another, for example in interactions between different groups and societies. If, for example, you consider the enormous copper coin I mentioned that we have at the Riksbank, coins of that sort are less practical, but also carry less risk as they do not require the same level of trust.

For many people, money is no longer something physical that you hold in your hand, but a figure in a bank account or a quick transfer on your mobile phone. Our new payment methods and the decline in the use of cash have raised new questions about the uniformity of money. Those of you with teenagers will no doubt recognise that a Swish payment of SEK 450 is often more appreciated than a SEK 500-note, even though the lack of parity between the Swish krona and the cash krona is due more to practical reasons than to a lack of trust.

The use of cash has declined rapidly in Sweden, but its continued existence is important both to ensure that payments remain accessible and to enable society to withstand disruptions to the payment system. The Riksbank has therefore been pushing for a number of new regulations to safeguard the ability to use cash. Since 2021, the major banks have been required to provide cash withdrawal and daily takings deposit facilities to a satisfactory extent throughout Sweden. As of 1 July this year, food shops and chemists have been required to accept cash, and,

[27] Graeber, D. 2011, Debt: The first 5000 years: Melville House.

from the same date, the major banks have been required to provide suitable services for daily takings and petty cash for businesses that accept cash.

Earlier this year, we also issued a recommendation that everyone should keep cash in a mixture of denominations at home. As a guideline, we have said that each household should have around SEK 1,000 in cash per adult at home, although even a lower amount can strengthen preparedness.

The question of the role of cash is closely linked to the need to strike a balance between ensuring that the payment system is secure, whilst also being efficient and accessible. The payments system is evolving rapidly, and new forms of payment, such as central bank digital currencies and stablecoins, present both opportunities and challenges. What the future of payments might and should look like is an important and complex issue that we will have to save for another seminar.

Conclusion

The long and colourful history of money encompasses a fascinating evolution from precious metals to banknotes, credit systems and today's digital money in our bank accounts. If we look to the future, it may well include both digital central bank currencies and forms of money which, like stablecoins, can enable faster and more automated payments, particularly between countries. Just as in days gone by, our money today is ultimately based on widely accepted rules and a strong trust in the system behind them.

This is also where the Riksbank's important role lies: in maintaining confidence in the Swedish krona and ensuring that the money we use can be exchanged for other currencies, is safe to use, and that inflation does not erode its value over time.

For more than 350 years, the Riksbank has been working to ensure that our monetary system functions properly. Society is changing, technology is advancing and new means of payment are emerging. The external environment may be stable or, as is currently the case, characterised by geopolitical unrest. But our responsibility remains the same – to ensure security and stability in our monetary system and, consequently, in the economy as a whole, for both present and future generations.

Thank you for your kind attention.