17 September 2021

RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

CENTRAL GOVERNMENT DEBT MANAGEMENT

Proposed guidelines 2022–2025

The Swedish National Debt Office's mandate

One of the Debt Office's primary responsibilities is to borrow money on behalf of the central government and manage the central government debt. The objective is to minimise the cost over the long-term while taking account of risk. The central government debt shall be managed within the framework of monetary policy requirements.

At the general level, debt management is governed by the Swedish Budget Act and the Ordinance Containing Instructions for the Swedish National Debt Office. These statutes set out, for example, the permitted purposes of central government borrowing and the objective of the debt management. In addition, the Swedish Government adopts guidelines for this management that govern matters including the composition and maturity of the debt.

The Government adopts new guidelines each year no later than 15 November. This decision is taken after the Debt Office has submitted proposed guidelines on which the Riksbank has been given the opportunity to deliver an opinion.

The operational role of the Debt Office thereafter includes borrowing the money required, in accordance with the framework set up, to finance deficits in the central government budget and replace loans that mature.

After the end of the year, the Debt Office submits a basis for evaluation of its debt management to the Government in February. The Government then presents an evaluation to the Riksdag (the Swedish Parliament) in April every other year.

The proposed guidelines and the basis for evaluation are published on riksgalden.se.

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Summary

- The Debt Office does not see a need for any major changes to the guidelines since the revisions made in recent years have led to a more comprehensive steering of the central government debt management. This means that the Debt Office can manage large, sudden variations in the borrowing requirement within the given steering intervals.
- The change that the Debt Office is proposing is for the removal of the point on the evaluation of retail-market borrowing, which will cease once the last lottery bond matures this year.
- The Debt Office proposes that the foreign currency exposure of the debt still remain unchanged. The review of the foreign currency debt that the Debt Office began in 2020 is not yet completed. The purpose of the continued work is to tie together the analysis in regard to the different parts of the debt management in which currency is used as a means of reducing the costs.
- It is the Debt Office's assessment that a separate point for green bonds is not needed in the guidelines because these are part of the nominal debt. However, the Debt Office considers it necessary for the Government to provide information about any further issuance of green bonds within central government debt management, given that the assignment for the first green bond is now completed. For example, the Government must decide each year on the amount of eligible green expenditures in the central government budget.

Proposed Guidelines 2022–2025

Below are the Debt Office's proposed guidelines for central government debt management in 2022–2025. For the years 2023–2025, the proposed guidelines are preliminary. Where there are proposed revisions to the current guidelines, the present wording is in the left column and the proposed new wording in the right column. Relevant parts of the Budget Act and the Ordinance Containing Instructions for the National Debt Office are also included to provide an overview of the framework governing the debt management.

Objective of central government debt management

1. The objective of managing the central government debt is to minimise the cost of the debt over the long-term while taking account of the risk in its management. The management of the debt shall be conducted within the framework of monetary policy requirements.
   Budget Act (2011:203).

Debt Office's mandate and purposes of the borrowing

2. The Debt Office is tasked with raising and managing loans for the central government in accordance with the Budget Act.
   Ordinance (2007:1447) Containing Instructions for the National Debt Office.

3. Under the Budget Act, the Debt Office may raise loans for the central government in order to:
   - finance current deficits in the central government budget and other expenditure based on decisions of the Riksdag (the Swedish Parliament)
   - provide such credits and perform such guarantees as decided by the Riksdag
   - amortise, redeem and buy back central government loans
   - meet the need for government securities at different maturities in consultation with the Riksbank
   - meet the Riksbank's need for foreign currency reserves

Guidelines process

4. The Debt Office shall submit proposed guidelines for central government debt management to the Government no later than 1 October each year. *Ordinance Containing Instructions for the National Debt Office*.

5. The Government shall request an opinion from the Riksbank on the Debt Office's proposal. *Budget Act*.

6. The Government shall adopt guidelines for the Debt Office's management of the central government debt no later than 15 November each year. *Budget Act*.

7. The Debt Office shall submit information for the evaluation of the management of central government debt to the Government no later than 22 February each year. *Ordinance Containing Instructions for the National Debt Office*.

8. The Government shall evaluate the management of the central government debt every other year. The evaluation shall be presented to the Riksdag no later than 25 April. *Budget Act*.

9. The Debt Office shall establish principles for the implementation of the guidelines for central government debt management adopted by the Government. *Ordinance Containing Instructions for the National Debt Office.*

10. The Debt Office shall establish internal guidelines based on the guidelines from the Government. These decisions are to concern the use of the mandate for position taking, the term to maturity of individual debt types, the currency distribution of the foreign currency debt, and principles for market support and debt maintenance.

Composition of the central government debt – debt shares

11. The proportion of inflation-linked krona debt is to be 20 per cent of the central government debt over the long term. The shares of the central government debt are to be calculated as nominal amounts at the present exchange rate including accrued inflation compensation.
12. The foreign currency exposure of the central government debt is to be unchanged. The exposure is to be calculated in a way that excludes changes in the krona exchange rate. The foreign currency exposure may, however, vary as a result of the Debt Office making currency exchanges in accordance with point 36.
13. The Debt Office shall set a target value for the distribution of the foreign currency debt among different currencies.
14. In addition to inflation-linked krona debt and foreign currency debt, central government debt is to be composed of nominal krona debt.

Term to maturity of the central government debt

15. The term to maturity of the central government debt is to be between 3.5 and 6 years.
16. The Debt Office shall determine a term-to-maturity interval for the nominal krona debt, the inflation-linked krona debt, and the foreign currency debt.
17. The term to maturity of the central government debt may deviate temporarily from the maturity interval stated in point 15.
18. Term to maturity is to be measured as duration.

Cost and risk

19. The trade-off between expected cost and risk is to primarily be made through the choice of the composition and term to maturity of the central government debt.
20. The main cost measure is to be the average issue yield. The cost is to be calculated using the valuation principle of amortised cost taking into account exchange rate changes and accrued inflation.
21. The main risk measure is to be variation in the average issue yield.
22. The Debt Office shall take account of refinancing risks in the management of the central government debt, including by issuing instruments with more than twelve years to maturity.
23. Borrowing is to be conducted in a way that ensures a broad investor base and diversification in a range of funding currencies in order to maintain good borrowing preparedness.

24. Positions are not to be included in the calculation of debt shares and term to maturity.

25. When taking positions, market values are to be used as the measure of cost and risk in the management of the debt.

Market support and debt maintenance

26. The Debt Office shall contribute, through its market support and debt maintenance, to the effective functioning of the government securities market in order to achieve the objective of long-term cost minimisation while taking account of risk.

27. The Debt Office shall establish principles for market support and debt maintenance.

Position taking

28. The Debt Office may take positions in foreign currency and the krona exchange rate.

    Positions in foreign currency may only be taken using derivative instruments. Positions may not be taken in the Swedish fixed income market.

    Positions refer to transactions that are intended to reduce the costs of the central government debt while taking account of risk, or to reduce the risks for the central government debt while taking account of cost, and that are not motivated by underlying borrowing or investment requirements.

    Positions may only be taken in markets that permit the management of market risk through liquid and otherwise well-developed derivative instruments that are also potentially a borrowing currency in the context of debt management.

29. Positions in foreign currency are limited to SEK 300 million, measured as daily Value-at-Risk at 95 per cent probability.

    The Debt Office shall decide how much of this scope may be used at most in day-to-day management.

31. Positions in the krona exchange rate are limited to a maximum of SEK 7.5 billion. When the positions are built up or wound down, this is to be done gradually and announced in advance.

    The Debt Office shall decide how much of this volume may be used at most in continuous management in connection with exchanges between the krona and other currencies. This volume is to be of a limited size and the positions do not need to be announced in advance.

Borrowing to meet the need for central government securities

32. The possibility of raising loans to meet the need for government securities under Chapter 5, Section 1 of the Budget Act may only be exercised if necessary in the event of a threat to the functioning of the financial market. The Debt Office may have outstanding securities with a maximum nominal value of SEK 200 billion for this purpose.

33. Investment of funds raised through loans to meet the need for government securities should be guided by the principles set out in the Preventive Government Support to Credit Institutions Act (2015:1017).

Management of funds etc.

34. The Debt Office shall place its funds, to the extent that they are not needed for disbursement, in an account at the Riksbank, a bank or a credit market company, or in government securities or other debt

instruments with a low credit risk. Investments may be made abroad and in foreign currency. *Ordinance Containing Instructions for the National Debt Office*.

35. The Debt Office shall cover the deficits that occur in the government central account. *Ordinance Containing Instructions for the National Debt Office*.
36. The management of exchanges between Swedish and foreign currency (currency exchanges) is to be predictable and transparent. *Ordinance Containing Instructions for the National Debt Office*.

Consultation and collaboration

37. The Debt Office shall consult with the Riksbank on matters concerning the components of its borrowing operations that can be considered of significant importance to monetary policy. *Ordinance Containing Instructions for the National Debt Office*.
38. The Debt Office shall collaborate with the National Institute of Economic Research and the National Financial Management Authority on matters concerning the Debt Office's forecasts of the central government borrowing requirement. *Ordinance Containing Instructions for the National Debt Office*.
39. The Debt Office should obtain the Riksbank's views on how the funds borrowed to meet the need for government securities under the Budget Act are to be invested.

Evaluation

40. Evaluation of the management of the central government debt is to be carried out in qualitative terms based on the knowledge and information available at the time of the decision. Where possible, the evaluation is to also include quantitative measures. The evaluation is to cover five-year periods.
41. The evaluation of the operational management is to include borrowing in and management of the different types of debt, market support and debt maintenance measures, and management of currency exchanges.
42. For inflation-linked borrowing, the realised cost difference between inflation-linked and nominal borrowing is to be reported.

Present wording:	*Proposed change:*
43. For retail-market borrowing, the cost savings compared with alternative borrowing is to be reported.	43. The point is removed.

44. Gains and losses are to be recorded continuously for holdings within a position-taking mandate and evaluated in terms of market values.

Retail-market point removed and foreign currency exposure unchanged

The changes made to the guidelines in recent years have led to a more comprehensive approach to managing the government debt. This means that the Debt Office has good flexibility for adapting to new borrowing conditions within the given steering intervals. The Debt Office therefore does not see a need for any major changes to the guidelines ahead of 2022. The one proposed change is for the removal of the point on the evaluation of retail-market borrowing, which will no longer apply once the last lottery bond matures in December 2021. The Debt Office also proposes to keep the foreign currency exposure unchanged because some analysis work remains in regard to the review initiated in 2020.

The objective of the debt management is to minimise the cost over the long-term while taking account of the risk. Monetary policy requirements shall also be taken into account. A long-term perspective entails that the Debt Office strives to achieve the lowest possible cost of the debt as a whole over time. The debt management is guided towards its objective at different levels: at the overarching general level through the guidelines as decided by the Government and operationally through internal guidelines, management strategies, policies and practices.

At the general level, a trade-off is made between cost and risk in the Government's guidelines for debt management. An essential factor to consider is how the debt portfolio should be structured in regard to different debt types and maturities, but other factors also affect the potential for keeping the borrowing cost low over the long term. Those include safeguarding a well-functioning government securities market and maintaining confidence in the Swedish state as an issuer.

The long-term focus of the guidelines is therefore based on the structural conditions that have a systematic effect on the cost of the debt or the risks in its management. An example of such a structural factor is the term premia – the approach whereby investors require extra compensation for choosing investments with long maturities over short maturities. But it also involves the expected development of the size of the debt over time as well as changes affecting how the government securities market works. An important reason for having a long-term perspective is that the central government is a major, unique participant in the domestic fixed-income market and can affect pricing by its actions. This places particular requirements on the debt management.

The target values for the composition of the different types of debt and maturity determine the parameters for the debt's exposure to risk in the form of cost variation. The risk exposure mainly arises from the loans the Debt Office raises but can also be adjusted by using derivatives, such as interest rate swaps. This means that the Debt Office can, through its issuance, borrow in a predictable manner, build up the volumes of the bonds and maintain various borrowing channels over time. The guidelines also stipulate that the Debt Office shall have good borrowing preparedness and contribute to a well-functioning market.

The recent years' changes to the guidelines as decided by the Government have been in the direction of a more comprehensive steering of the debt management. These mainly involve the term to maturity now being steered with a common maturity interval for the entire central government debt instead of by the maturity of each type of debt. The common maturity interval provides a better overview of the level of the risk rather than having separate target levels for each debt type (which shall still be established, although by the Debt Office instead of the Government).

With guidelines at the more overarching level, the Debt Office has even better possibilities of managing major fluctuations in the borrowing requirement within the given parameters and, to some degree, adapting the borrowing to the prevalent market conditions. This has been important not least during the great uncertainty of the last year. When the borrowing requirement in May 2020 was expected to grow drastically as a result of the pandemic, the Debt Office planned to increase the short-term borrowing to a greater extent than the long-term borrowing, in accordance with the strategy of initially accommodating major fluctuations and uncertainty in the borrowing requirement via short-term loans. The new borrowing plan would thereby entail a significant reduction of the debt's term to maturity. The Debt Office could then accommodate this change by adjusting the steering interval for the maturity of the nominal debt without risking straying outside the Government's guideline for the maturity of the central government debt as a whole. Accordingly, these comprehensive guidelines provide greater flexibility in the operational debt management.

Retail-market point is being removed after the last remaining lottery bond

The Debt Office does not see a need to alter the guidelines ahead of 2022 except for deleting point 43 on how the cost-savings of retail market borrowing shall be reported as part of the evaluation of central government debt management. This point should be removed because the borrowing in the retail market will be phased out once the last lottery bond matures in December 2021. After that, neither National Debt Savings (Riksgäldsspar) nor lottery bonds will be in use as savings products aimed at the retail market.

The decision to stop new subscriptions for the National Debt Savings product with fixed interest was made in October 2012, and the already subscribed accounts remained until their maturity in December 2020. In May 2013, the Debt Office's Board of Directors decided that the National Debt Savings with floating interest would also be discontinued. Starting in December 2014, deposits and new subscriptions were no longer accepted, and the money was repaid during November and December 2015.

The decision to discontinue issuing lottery bonds was made in 2018, after issuance of these bonds had been on hold since 2016. The Debt Office's assessment was that lottery bonds were no longer able to fulfil the objective of reducing the cost of the central government debt, compared with borrowing in the institutional market. The last outstanding lottery bond matures in December 2021.

Review of the foreign currency exposure continues

As part of the review of the foreign currency exposure of the central government debt, the Debt Office – in the proposed guidelines ahead of 2021 – updated and augmented the previous analysis using historical data. The focus of this analysis is the strategic currency exposure over the long term, excluding the position taking. In order to examine how the Debt Office is to evaluate previous actions as well as how forward-looking information is to be utilised, the Debt Office began an additional analysis in 2021. This analysis work has not yet been completed. The Debt Office intends to present a final analysis of the foreign currency exposure of the central government debt in conjunction with the proposed guidelines for 2023.

The purpose of the continued work is to tie together the analysis in regard to the different parts of the debt management in which currency is used as a means of reducing the costs, that is, both the strategic currency exposure and the position taking. These parts all have different characteristics, and they should ideally be described in consistent terms including how they relate to each other as a whole. There are, in part, differences between both the theoretical and the empirical analysis as well as the practical application, depending for example on whether the analysis horizon is shorter or longer.

Pending the results of the overall analysis, the Debt Office proposes that the foreign currency exposure of the central government debt be left unchanged.

No need for a separate guideline for green bonds

The Debt Office issued a Swedish sovereign green bond in September 2020 in accordance with an assignment from the Government. The assignment stipulated that the issuance volume should be based on the objective of central government debt policy and fit within the total green expenditure in the central government budget by a good margin. The issuance was to be evaluated in terms of, among other things, the extent of compatibility with effective debt management and the impact on the rest of the bond market.

The green bond contributed to increasing focus for Swedish climate and environmental policy and attracted new investors. The yield on the issue was one basis point (one one-hundredth of a percentage point) lower than the yield of a corresponding traditional bond at the same time. Because the borrowing requirement was relatively large during 2020, there was room to issue a green bond without significantly crowding out issuance of traditional government bonds.

Within the scope of the Government's mandate, a green framework was developed, which can be used for issuance of green bonds in the future as well. However, the Debt Office considers it necessary for the Government to formally provide information to the Debt Office regarding any future issues of green bonds within central government debt management. This information refers to the possibility of issuing additional green bonds in accordance with the process described in the framework, given that the initial assignment has been completed. The assessment is, however, that a separate point in the guidelines for debt management is not needed because the green bonds are part of the nominal debt and thereby covered by the general guidelines for the debt's composition and maturity.

In order to enable the Debt Office to continually make assessments of the capacity for issuing green bonds, the Government must also decide each year on the framework for eligible green appropriations in the central government budget and specify the expenditures that can be connected to the green bonds (the specified amount constitutes the maximum issue amount).

Regardless of whether or not the government bonds that are issued have some kind of label – for example, "green" – the Debt Office must continue to respond to investors' demands for transparency on sustainability issues. The Debt Office therefore intends to analyse how the sustainability perspective can be further incorporated into all aspects of its operations, of which central government debt management is key, and which strategies are best suited to Swedish conditions.

The Swedish National Debt Office is the central government financial manager and the national resolution and deposit insurance authority. The Debt Office thereby plays an important role in the Swedish economy and the financial market.

RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Visiting address: Olof Palmes gata 17 | Postal address: SE-103 74 Stockholm, Sweden | Phone: +46 8 613 45 00
E-mail: riksgalden@riksgalden.se | Web: riksgalden.se