RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

2025-09-22

Central government debt management

Proposed guidelines 2026

Reg.no 2025/428

The Debt Office's assignment

One of the Swedish National Debt Office's primary duties 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, which 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 report with 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 two years.

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

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Summary

The Debt Office proposes no changes to the guidelines regarding the central government debt's composition and term to maturity. We do, however, propose an adjustment to the guideline point on refinancing risk, as well as reformulated points on evaluation. The proposal also includes editorial changes for a more logical structure of the guidelines.

The Debt Office proposes leaving the steering of the composition of the central government debt unchanged. In recent years, the Government has decided that the foreign currency exposure of the debt is to be gradually phased out and that the outstanding inflation-linked debt is to decrease. These changes are currently being implemented.

The Debt Office does not propose any changes to the steering interval for the term to maturity either. Neither developments regarding term premia nor a new analysis of how the term to maturity affects expected cost and risk have provided grounds for altering the maturity steering. The conclusions of these analyses must also be weighed against other aspects such as the size of the debt and how much short-term funding is needed. These considerations also support keeping the steering interval unchanged.

The Debt Office proposes a change to the guideline point on refinancing risk because the present wording could be misinterpreted. The change is the removal of a subordinate clause in regard to the issuance of instruments with more than twelve years to maturity.

As an assignment from the Government, the Debt Office has examined how the evaluation of debt management can be developed. Sweden has a clear evaluation process and transparent reporting of costs and risks, but the balance between cost and risk could be evaluated in further detail using new analysis methods. This mainly pertains to the steering of the term to maturity. On the basis of the work done for this assignment, the Debt Office proposes some changes to the guideline points on evaluation, in order to clarify which aspects are to be evaluated and the principles for the how the evaluation is to be performed.

Proposed guidelines 2026

Below are the Debt Office's proposed guidelines for central government debt management in 2026. Although the guidelines are adopted annually, they are formulated here as though they apply. Where the proposal involves changes to the steering in relation to the adopted guidelines currently in place, we present the changes in bold type in the opening text of the guideline point. Relevant parts of the Budget Act (2011:203), the Ordinance Containing Instructions for the National Debt Office (2023:909), and the Sveriges Riksbank Act (2022:1568) are also included to provide an overview of the framework. The grounds for the changes we propose are described in a separate chapter.

Objective of central government debt management

1. The central government debt shall be managed in such a way as to minimise the cost of the debt over the long-term while taking the risk associated with its management into account. The management of the debt shall be conducted within the framework of monetary policy requirements (Chapter 5, Section 5 of the Budget Act).

Debt Office's task and purposes of borrowing

2. The task of the Debt Office is to raise and manage loans for the central government in accordance with the Budget Act (Section 3 of the Ordinance containing Instructions for the National Debt Office).

3. 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

(Chapter 5, Section 1 of the Budget Act).

The Debt Office shall raise loans for the central government to meet the Riksbank's need for borrowing in order to:

- fulfil its obligations in relation to the International Monetary Fund, and

- fund the foreign currency reserve

(Chapter 6, Section 4 and Chapter 10, Section 4 of the Sveriges Riksbank Act [2022:1568]).

Guidelines process

4. The Debt Office shall submit proposed guidelines for central government debt management to the Government Offices by 1 October each year (Section 30 of the Ordinance containing Instructions for the National Debt Office).

5. The Government shall give the Riksbank the opportunity to state an opinion on the Debt Office's proposed guidelines (Chapter 5, Section 6 of the Budget Act).

6. The Government shall adopt guidelines for the Debt Office's management of the central government debt by 15 November each year (Chapter 5, Section 6 of the Budget Act).

7. The Debt Office shall submit information for the evaluation of the management of the central government debt to the Government by 22 February each year (Section 30 of the Ordinance containing Instructions for the National Debt Office).

8. The Government shall evaluate the management of the central government debt every two years. The evaluation shall be presented to the Riksdag by 25 April (Chapter 5, Section 7 of the Budget Act).

9. The Debt Office shall adopt principles for the implementation of the guidelines for central government debt management adopted by the Government (Section 41 of the Ordinance containing Instructions for the National Debt Office).

10. The Debt Office is to adopt internal guidelines based on the Government's guidelines. 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.

Moved section: Cost and risk

11. **Renumbered from 19:** The trade-off between expected cost and risk is to be made primarily through the choice of the composition and term to maturity of the central government debt.

12. **Renumbered from 20:** The main measure of cost is to be the average issue yield. The cost is to be calculated using the valuation principle of amortised cost taking accrued inflation and exchange rate changes into account.

13. **Renumbered from 21:** The main measure of risk is to be the variation of the average issue yield.

14. **Renumbered from 22, proposed new wording:** The Debt Office is to take account of refinancing risks in the management of the central government debt.

    Present wording: The Debt Office is to take account of refinancing risks in the management of the central government debt, including by issuing instruments with more than twelve years to maturity.

15. **Renumbered from 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.

16. **Renumbered from 26:** The Debt Office is to 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.

17. **Renumbered from 24:** Positions are not to be included when calculating debt shares and term to maturity.

18. **Renumbered from 25:** When taking positions, market values are to be used as the measure of the costs and risks in the management of the debt.

Heading is removed: Market support and debt maintenance

19. **Point is removed:** The Debt Office is to adopt principles for market support and debt maintenance.

Moved section: Composition of central government debt

19. **Renumbered from 11:** The outstanding stock of inflation-linked debt is to be gradually reduced. The debt type is to be calculated as a nominal amount excluding accrued inflation compensation. At the end of 2029, the inflation-linked debt is to reach a target level of approximately SEK 80 billion.

20. **Renumbered from 12:** The foreign currency exposure of the central government debt is to be gradually phased out and attain the target value of zero as of 2027. The foreign currency exposure may, however, vary as a result of the Debt Office making currency exchanges in accordance with point 33.

21. **Point is removed:** The Debt Office is to set a target value for the distribution of the foreign currency debt among different currencies.

21. **Renumbered from 14:** In addition to inflation-linked krona debt and foreign currency debt, the central government debt is to consist of nominal krona debt.

Moved section: Term to maturity of central government debt

22. **Renumbered from 15:** The term to maturity of the central government debt is to be between 3.5 and 6 years.

23. **Renumbered from 16:** The Debt Office is to determine a term-to-maturity interval for the nominal krona debt, the inflation-linked krona debt, and the foreign currency debt.

24. **Renumbered from 17:** The term to maturity of the central government debt may deviate temporarily from the maturity interval stated in point 22.

25. **Renumbered from 18:** Term to maturity is to be measured as average time to refixing.

Position taking

26. **Renumbered from 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.

27. **Renumbered from 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 debt management.

28. **Renumbered from 30:** Positions in the krona exchange rate are limited to a maximum of SEK 7.5 billion. When the positions are built up or phased out, this is to be done gradually and announced in advance.

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

Borrowing to meet need for government loans

29. **Renumbered from 31:** The possibility of raising loans to meet the need for government loans under Chapter 5, Section 1 of the Budget Act may only be used if necessary in the event of a threat to the functioning of the financial market. The Debt Office may have outstanding loans with a maximum nominal value of SEK 200 billion for this purpose.

30. **Renumbered from 32:** Investment of funds raised through loans to meet the need for government loans should be guided by the principles set out in the Preventive Government Support to Credit Institutions Act (2015:1017) and concerning the Stability Fund.

Management of funds etc.

31. **Renumbered from 33:** The Debt Office shall place its funds, to the extent that they are not needed for outgoing payments, 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 (Section 22 of the Ordinance containing Instructions for the National Debt Office).

32. **Renumbered from 34:** The agency shall cover the deficits that occur in the government central account (Section 24 of the Ordinance containing Instructions for the National Debt Office).

33. **Renumbered from 35:** The agency's management of exchanges between Swedish and foreign currency (currency exchanges) is to be predictable and transparent (Section 23 of the Ordinance containing Instructions for the National Debt Office).

Consultation and collaboration

34. **Renumbered from 36:** The Debt Office shall consult with the Riksbank on matters concerning the components of its borrowing operations that may be assumed to be of significant importance for monetary policy (Section 29 of the Ordinance containing Instructions for the National Debt Office).

35. **Renumbered from 37:** The Debt Office shall collaborate with the National Financial Management Authority and the National Institute of Economic Research on matters concerning the Debt Office's forecasts of the central government borrowing requirement (Section 28 of the Ordinance containing Instructions for the National Debt Office).

36. **Renumbered from 38:** The Debt Office should obtain the Riksbank's views on how the funds borrowed to meet the need for central government loans are to be invested.

Evaluation

37. **Renumbered from 39, proposed new wording:** Evaluation of the management of the central government debt is to be carried out in qualitative terms in light of the knowledge available at the time of the decision. The evaluation is also to include reporting of quantitative measurements and results where possible and relevant. The reporting is to cover five-year periods.

    Present wording in point 39: Evaluation of the management of the central government debt is to be carried out in qualitative terms in light of the knowledge available at the time of the decision. Where possible, the evaluation is also to include quantitative measures. The evaluation is to cover five-year periods.

38. **New point:** The Government's decisions on guidelines for the central government debt's composition and term to maturity are to be evaluated on the basis of the objective of debt management and the analysis that the Debt Office presents in its proposed guidelines. There, it shall also be made clear how proposed changes to the guidelines are to be evaluated. The Debt Office is also to analyse how the composition and term to maturity have developed.

39. **New point replacing present point 40:** The Debt Office's decisions on central government borrowing are to be evaluated on the basis of the objective of central government debt management and the Government's guidelines for the debt's composition (19–21), the debt's term to maturity (22), refinancing risks (14), borrowing preparedness (15), and market support and debt maintenance (16).

    Present wording of point 40: 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.

40. **Renumbered from 42:** Gains and losses are to be recorded continuously for holdings within a position-taking mandate and evaluated in terms of market values.

41. **Renumbered from 43:** The phasing out of the foreign currency exposure of the central government debt is to be evaluated in relation to a steady pace of reduction over the 2023–2026 period. The fact that the evaluation is conducted in relation to a steady pace of reduction is not a determinant of the actual reduction pace on which the Debt Office decides. The evaluation is to follow the same principles that apply for positions within the position-taking mandate (point 40). Only transactions that are carried out for the purposes of phasing out the foreign currency exposure of the central government debt are to be included in the evaluation.

    Present point 41 is removed: For inflation-linked borrowing, the realised cost difference between inflation-linked and nominal borrowing is to be reported.

Conditions for debt management

The way in which the central government debt should be managed is affected by, among other things, the debt's variation and size as well as how different risk premia develop over time. After having shrunk over a long period, in recent years the central government debt has begun to grow at the same time as the Riksbank's bond sales have further increased the supply of tradeable bonds. On the whole, this development has affected both the investor base and market liquidity.

The objective of central government debt management is to minimise the long-term cost while taking account of the risk. A long-term perspective entails that the guidelines are designed for achieving a low cost over time for the entire debt, as opposed to individual issues or instruments. In the guidelines, a balance between cost and risk is therefore determined based on long-term structural factors.

Both the short-term variation and the long-term progression of the size of the central government debt are such factors. Another is how different risk premia develop. One risk premium that the Debt Office continually follows is the term premium. Another is the liquidity premium, which is connected to the actions of investors and how the government securities market functions. The debt's size may also play a role for the liquidity premium.

Both debt's size and variation matter

A key prerequisite for determining how the steering of central government debt management should be designed is the size of the debt. This concerns how the debt is expected to develop over time, and how uncertain this development is, as well as how the debt varies over different time horizons. An important component of debt management is the preparedness for, and awareness of, uncertainty. Both uncertainty and natural variation in the debt's size due to seasonal patterns and fluctuations in the economy also create a need for a certain amount of built-in flexibility in steering the debt's term to maturity and composition.

Size of debt is not affected by balance target only

An important determinant for the long-term development of the central government debt is the fiscal policy framework. At the end of last year, a parliamentary committee presented a report with a review of the target for public sector net lending. The report contained several proposals, but the biggest news was that the public sector's net lending target will be changed from a surplus of one-third of a per cent of GDP to a balance as of 2027. Income and expenditure will thereby be of equal size over a business cycle. This entails – all else being equal – a larger general government debt than with a surplus target, but it is uncertain what the effect will be on the central government debt. If the central government were to be

responsible for the entire adjustment when the net-lending target is reduced, it would mean an increased borrowing requirement on the scale of a couple of tens of billion kronor per year.

In addition to uncertainty as to what the effects of the framework might be, there are also other factors of significance for the size of the central government debt in periods ahead, such as economic developments and large temporary incoming and outgoing payments.

Framework allows for significant variation in central government debt
Even though the framework and the net-lending target – regardless of whether it is a surplus or balance target – are important for the debt's development, from the Debt Office's debt management perspective the parameters are actually broad in the sense that the central government debt may vary significantly without departing from the framework. The reason for this is that developments in the other two subsectors of the public sector – the old-age pension system and local and regional governments (municipal sector) – have a major impact on the central government net lending and budget balance. This is because, in order to achieve the net-lending target, the central government must adjust its net lending to that of the other two subsectors over time.

Based on assumptions from the Swedish National Financial Management Authority and the National Institute of Economic Research about long-term developments in the municipal sector and the old-age pension system, it is possible to outline different scenarios for the progression of the central government debt. Even when it is assumed that there will not be any departure from the fiscal policy framework, the differences between the scenarios over a five-year period may amount to hundreds of million kronor. Developments in other subsectors of the public sector could in fact have a far greater impact on the debt's development over time than the change in the net-lending target.

Other large inflows and outflows may also affect debt
Major individual initiatives and measures can also affect the size of the central government debt. Historical examples include large-scale sales of state-owned companies and the Riksbank's expansion of the foreign currency reserve, whereas more contemporary issues include defence initiatives and forthcoming nuclear-power funding. Although both of these issues involve initiatives with announced public-finance frameworks with a scope of hundreds of million kronor, it is unclear at present when, or to what extent, they will affect the size of the central government debt.

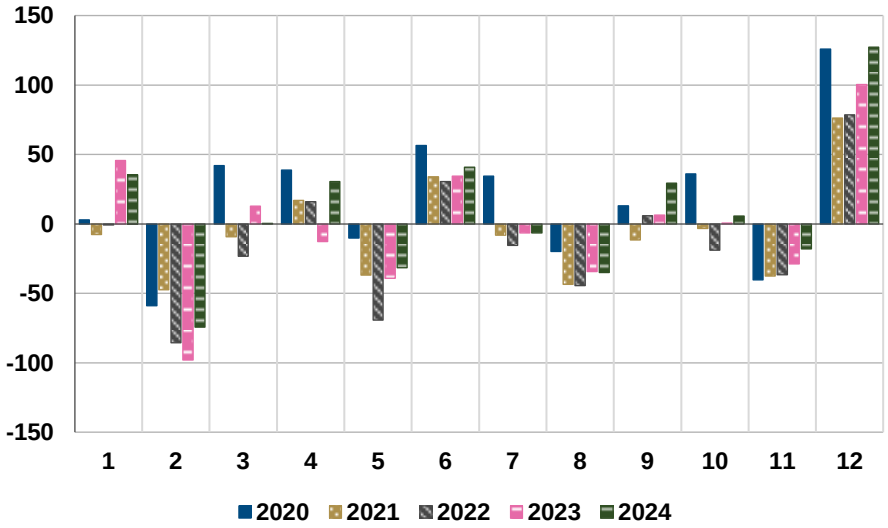
Debt varies significantly in both short- and long-term

The guidelines for central government debt management must take into account the fact that the debt varies both over months (seasonal patterns) and years (cyclical fluctuations). There also needs to be capacity for managing outcomes of central government payments that differ from the forecasts on which the borrowing plan is based.

In simplified terms, the debt management consists of a short-term part and a long-term part, each of which creates important conditions for the other as well as for the whole. Liquidity management and the short-term borrowing must be of a size that can handle short-term fluctuations in the budget balance. This is turn places a limitation on how large the long-term borrowing can be. Fluctuations in the short-term borrowing affect both key figures and measures used to steer the debt, such as the term to maturity and refinancing risk. A larger portion of short-term funding involves a shorter term to maturity and higher refinancing risk, all else being equal.

Figure 1 Net borrowing requirement month by month

SEK billion



Note: The figure shows the central government net borrowing requirement (budget balance with opposite sign) per month for the years 2020–2024.

Source: The Debt Office.

Figure 1 illustrates how the net borrowing requirement, and in the longer term the central government debt, has varied on a monthly basis over the last five years. The fluctuations are largely due to seasonal effects in the central government's payments, i.e. some large payments recurring in the same month every year as a result of the way in which the regulations for the tax and transfer systems are structured. This pertains, for example, to residual tax paid in in February, excess tax paid out in April and June, as well as premium pension funds disbursed in December. In recent years, large temporary flows have also contributed to the fluctuations, such as congestion revenue to Svenska kraftnät, disbursement of electricity support, and a capital contribution to the Riksbank.

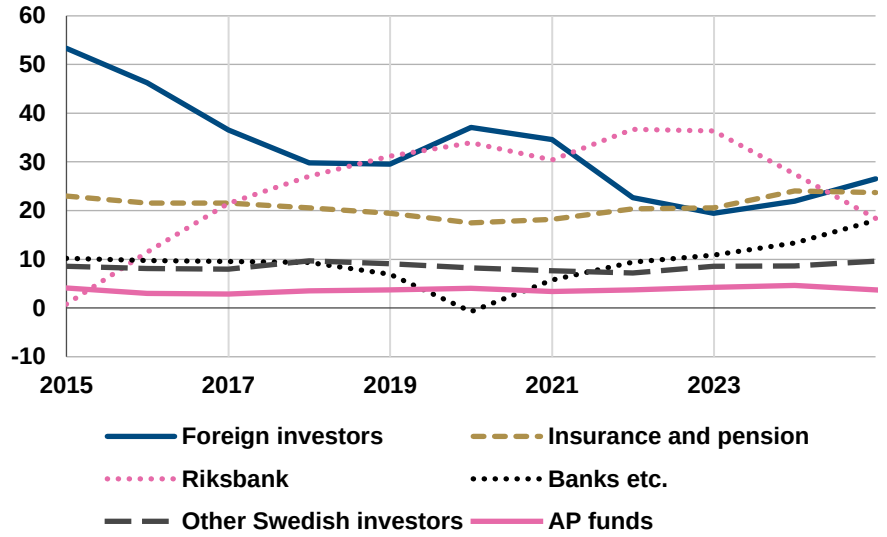
More even investor base and improved liquidity

The last decade has involved major changes in both the investor base and market liquidity. The Riksbank began its large-scale purchases of government bonds in 2015 and rapidly increased its share of the total ownership in a few years (see figure 2). A redirection of monetary policy for a couple of years then led to the Riksbank starting to sell off its holdings instead, and its share has since decreased

from almost 40 per cent to approximately 20 per cent. Foreign investors account for the foremost change in ownership in pace with the shift in the Riksbank's share. Foreign investors' ownership has decreased from approximately 50 per cent just over ten years ago to around 20 per cent, although it has gone up slightly in recent years. There is also a similar but milder trend for insurance and pension institutions as well for banks, credit market companies, and mutual funds – two investor groups that have both gradually increased their shares over approximately the last five years.

Figure 2 Owners of central government debt

Percent



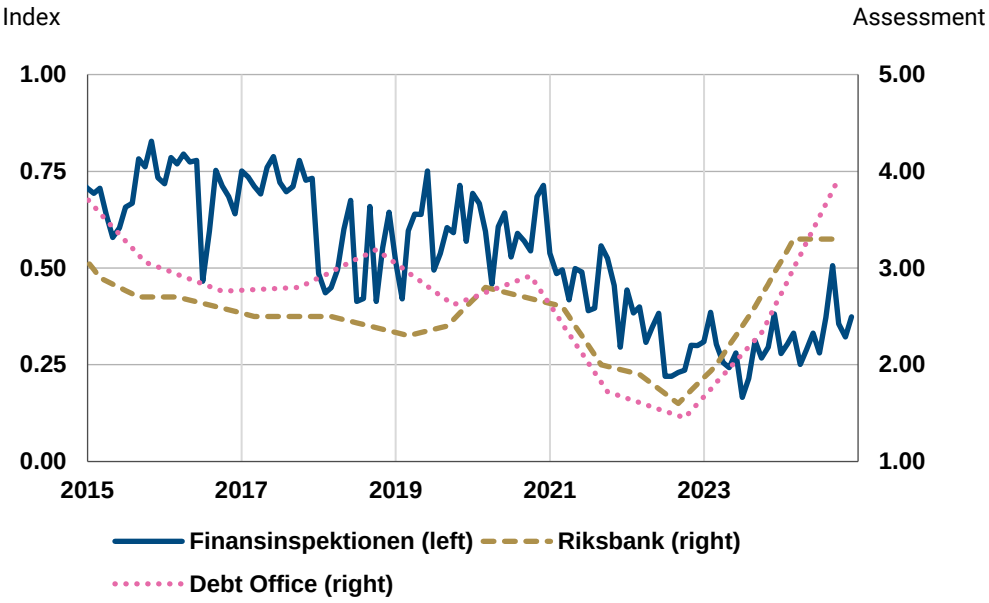
Note: Banks etc. including credit market companies and mutual funds.

Source: Statistics Sweden.

The trend for market liquidity in the same period correlates with the changes in the investor base. One effect of the Riksbank's holdings was that there was a smaller volume of government bonds available for trading, which many market participants stated adversely affected liquidity. Other factors considered to have inhibited liquidity were a low return, increased regulation, and the central government debt shrinking as a share of GDP. These characterised the trend of deteriorating liquidity until a few years ago when a couple of the factors, such as the interest rate level and the Riksbank's ownership, shifted from inhibiting market liquidity to promoting it instead (see figure 3).

Both figures 2 and 3 show that the increased tradeable supply has contributed positively in various ways. The investor base has broadened – three groups, excluding the Riksbank, are now about the same size – at the same time as market liquidity has improved and is now once again satisfactory according to the Debt Office's survey. Although it is difficult to assess and even harder to measure, both of these developments have led to a decrease in the liquidity premium (the additional compensation in the form of a higher yield sought by investors when they deem a financial instrument to be more difficult to buy and sell).

Figure 3 Measurements of market liquidity



Note: Finansinspektionen's liquidity measure is an aggregation of indicators for nominal government bonds with benchmark status. Higher values correspond to higher liquidity. The figure shows a two-month moving average of the index. The Debt Office's measure shows an average of primary dealers' and investors' assessments of liquidity in terms of volume and spread measured for nominal government bonds in an annual survey by Kantar. The rating scale is 1–5, where 4 and higher is interpreted as excellent and lower than 3 as unsatisfactory. The figure shows the average of the scores for spread and volume. The Riksbank's measure shows market participants' assessments of market liquidity in the secondary market for nominal government bonds.

Source: Finansinspektionen, the Riksbank, and the Debt Office.

Small changes in term premium

Another risk for which investors in government securities demand an extra return is term-to-maturity risk. For the central government, loans with longer maturities entail reduced risk from variation in cost. At the same time, term premia have historically been positive, which has made it more expensive for the Debt Office to borrow in long maturities than in short ones.

Since term premia cannot be observed, they must be estimated, which involves uncertainty. To calculate the Swedish term premium, the Debt Office uses what is known as the ACM model developed by the Federal Reserve.[1] The model's calculations are based on data for swap rates with maturities of between one and ten years from August 1995 to July 2025. When the term premium is positive, the Debt Office is expected to pay a higher cost for borrowing in longer maturities.

An update of these calculations shows that the term premium last year can be described as essentially unchanged, whereby the average in the last year has been approximately half of a percentage point (see figure 4). It is therefore distinctly

[1] Tobias Adrian, Richard K. Crump, and Emanuel Moench, "Pricing the Term Structure with Linear Regressions", *Journal of Financial Economics 110 (1),* October 2013, pp. 110-138

higher than the negative values during the years of low interest rates, but at the same time clearly lower than the levels in the years prior to the financial crisis of 2008.

Figure 4 Swedish ten-year term premium

Percentage points

Note: The term premium, which is presented on a monthly basis, applies to Swedish ten-year swap rates. The period extends from August 1995 to July 2025.

Source: The Debt Office.

Grounds for proposed guidelines

The Debt Office proposes keeping the steering of the central government debt's composition and term to maturity unchanged. This means that the ongoing phase-out of the foreign currency exposure and the reduction of inflation-linked debt will continue and that the steering interval for maturity will remain in place. A developed analysis using portfolio simulations has not provided grounds for altering the maturity interval. However, the Debt Office proposes an adjusted guideline point on refinancing risk and reformulated points on evaluation. We also propose an editorial change of rearranging the points for a more logical order.

The overall trade-off between cost and risk in the management of central government debt is made by the Government, after proposals by the Debt Office, through deciding on the targets for the debt's composition and term to maturity. The targets steer the debt's exposure to different market risks (interest rate refixing risk, inflation risk, and currency risk), not how the debt is to be funded by the Debt Office's borrowing. The Government's guidelines also contain parts about taking account of refinancing risks, maintaining good borrowing preparedness, and supporting the government securities market. These parts are directly linked to how the Debt Office conducts the borrowing.

At the guidelines level, the Debt Office has in recent years proposed changes to the composition of the central government debt. This has resulted in the decision to gradually phase out the foreign currency exposure of the debt and reduce the outstanding inflation-linked debt. The main reason is that neither the currency exposure nor the inflation-linked debt contributes to reducing the overall costs or the risks associated with the central government debt.[2] This means that the Debt Office does not currently see any need to propose further changes to the debt's composition. Therefore, these points are unchanged in this year's proposed guidelines. Once the changes to the composition have been made, the central government debt will consist mainly of nominal debt and the risk exposure will be steered primarily by the term to maturity.

The central government debt consists of loans with different lengths of time until they reach maturity, i.e. different terms to maturity. The debt also includes derivatives that the Debt Office uses to, for example, adjust the foreign currency exposure or interest rate refixing period without issuing new bonds. A short term to maturity has historically led to a lower average cost than a longer term to maturity. This is because short-term interest rates are usually lower than long-term interest

[2] See *Central government debt management — Proposed guidelines 2023–2026* and *Central government debt management — Proposed guidelines 2025–2027*.

rates over the same period. At the same time, a short maturity is associated with higher risk. This is because there may be greater variation in interest cost since the interest rate on the debt is refixed more frequently and short rates are usually more volatile than long rates. Such risk is usually referred to as interest rate refixing risk. The steering of maturity in the guidelines mainly concerns the exposure to interest rate refixing risk.

Another aspect of term to maturity is the debt's maturity profile, which shows when outstanding loans must be repaid and refinanced. Refinancing risk pertains to whether or not the central government can borrow on reasonable terms at a specific time. Refinancing risk is also taken into consideration when determining the overall balance between cost and risk that forms the basis of the guidelines decision.

Analysis of term to maturity does not provide reason to alter steering

Determining the debt's term to maturity is important for the cost and interest rate refixing risk associated with central government debt management. The Debt Office proposes that the steering interval for the debt's term to maturity remain unchanged. Neither the progression of term premia nor a new analysis of how interest rate refixing risk affects expected cost and risk provides strong grounds for changing the steering interval. For further clarity about steering the maturity, in this section we also describe how the Debt Office uses the flexibility provided by the interval.

Analysis shows small difference between different portfolios

Historically, the decision on maturity steering has been based mainly on the Debt Office's analyses of the term premium. To expand on the analysis of the debt's term to maturity, in this year's proposed guidelines we also present a developed analysis using portfolio simulations.

Previous analysis showed for many years that there were positive term premia, and the Debt Office accordingly proposed shortening the term to maturity. Because we assessed that the established borrowing strategy for bonds also contributed to the objective of debt management, shortening the maturity was done using interest rate derivatives. In several proposed guidelines from 2016 onwards, the Debt Office then showed that the advantage of a short interest rate refixing period had diminished, and in 2018 we concluded that the term premia appeared to be approaching zero. We then made the assessment that the balance between the savings and higher risk involved with a short interest rate refixing period should be adjusted, and on several occasions we recommended lengthening the debt's term to maturity. In practice, the extension occurred primarily through a phasing out the derivative exposure.

In 2022, the term premium increased in conjunction with high inflation and ensuing tighter monetary policy. Despite the increase, the term premium remained low from a historical perspective (see the chapter on conditions). Shortening the term to

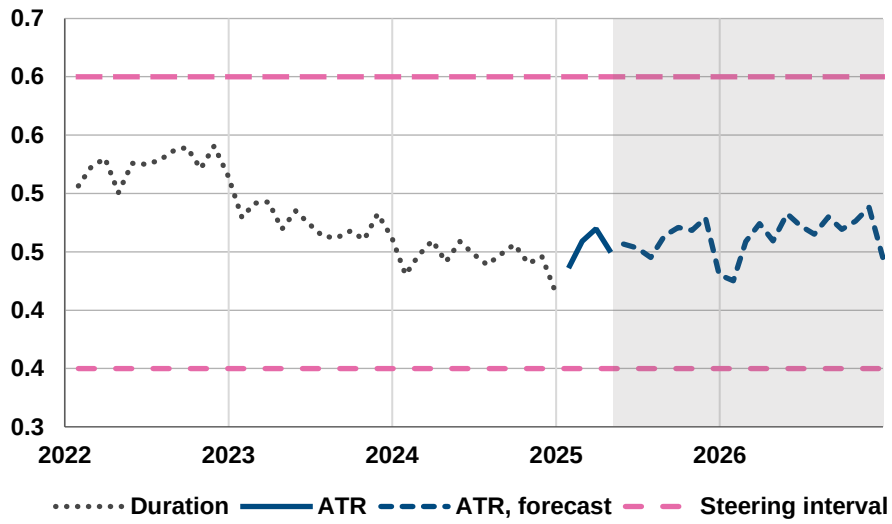
maturity of the central government debt would therefore only generate a small expected cost advantage. The fact that the difference in expected cost is so small thereby merits more thorough analysis of how the choice of maturity affects cost variation.

In the supplementary simulation analysis, the portfolios are constructed to illustrate that the expected interest cost varies depending on maturity (see the in-depth section on page 20). The simulation analysis shows that the difference in cost for the hypothetical portfolios with different maturities is relatively small. Therefore, these results do not provide any compelling reasons for changing the term to maturity.

Since January 2025, the Debt Office measures term to maturity as average time to refixing (ATR). This means that the maturity is calculated as a weighted average remaining time until the interest rate on the central government debt is to be refixed. ATR is a maturity measure for interest rate refixing risk that is not affected by changes in the market interest rate.

Figure 5 Term to maturity of central government debt

Years



Note: Up to January 2025, the Debt Office measured term to maturity as Macaulay duration. Since then, we measure and make forecasts of term to maturity as average time to refixing (ATR). Forecasts show the last day of each month, whereas the outcomes shown are the monthly mean. The pink lines represent the steering interval for term to maturity in the Government's guidelines. This range is the same even after the change in method of measuring maturity, from duration to ATR.

Source: The Debt Office.

Steering towards middle of the term to maturity interval

The Debt Office's borrowing plan is based on steering the term to maturity, measured as ATR, towards the middle of the maturity interval. We steer primarily by the issuance amount ofin government securities with different maturities. This range is not intended to be used by the Debt Office to adapt the maturity to

assessments of future interest rates. Nevertheless, in the short-term, the term to maturity may deviate from the midpoint if the borrowing requirement differs from our forecast. The borrowing plan that we create ensures that the planned maturity stays within the steering interval and approaches the midpoint in the long term.

When the Debt Office plans the borrowing and distribution of outstanding loans, we analyse how the different forms of borrowing contribute to the total term to maturity. We issue both bonds in the capital market (with a maturity of over one year) and treasury bills and other short-term instruments in the money market (up to one year). The long-term borrowing must meet the central government's long-term borrowing needs, which among other things are dictated by the fiscal policy framework and fluctuations in the business cycle. This type of borrowing also contributes to extending the central government debt's term to maturity. The Debt Office endeavours to make gradual changes to the issuance volumes of bonds – both increases and decreases – and communicate clearly about these changes. By proceeding with transparency and a long-term approach, we aim to decrease uncertainty and reduce the cost over time.

The short-term borrowing must instead accommodate short-term variations in the borrowing requirement. The central government debt and thereby its term to maturity are affected from day to day by budget-balance variations, issues and redemptions, the market-maintaining repo facility, and payments of collateral. Periodically, the impact of these factors may be periodically large (see the section *Debt varies significantly in both short- and long-term* on page 12).

In accordance with the Government's guidelines, the Debt Office is to establish individual maturity intervals for nominal krona debt, inflation-linked krona debt, and foreign currency debt. These intervals for the individual debt types are based on the fact that the term to maturity for the entire central government debt must be within the range stipulated in the Government's guidelines: between 3.5 and 6 years.

When the Debt Office plans its borrowing, we ensure that the term to maturity for these separate debt types is within each interval stipulated in the internal guidelines. According to the Government's guidelines, the inflation-linked share is to decrease until 2029 and adopt a long-term nominal amount of SEK 80 billion. This means that the maturity of the inflation-linked share in periods ahead only affects the total debt's maturity to a limited extent. Accordingly, the need for a separate steering interval for inflation-linked debt diminishes. This also applies to the currency exposure part of the debt, which is to be zero as of 2027.

In-depth

Developed analysis using portfolio simulations

In putting together this year's proposed guidelines, the Debt Office has developed a method for analysing the composition and term to maturity of the central

government debt. This developed analysis provides a more thorough basis for both the guidelines decisions themselves and their evaluation.

The analysis method builds on the same framework that the Debt Office presented in last year's proposed guidelines. It entails that we construct hypothetical portfolios with different maturities and compositions – and compare them with one another. By doing so, we gain a clearer and more thorough foundation for being able to evaluate whether or not the guidelines decisions involve a reasonable balance between cost and risk.

In connection with this year's guidelines proposal, the Debt Office is publishing a Focus Report that provides a more detailed analysis of costs and cost variation.[3] In future proposed guidelines, the Debt Office will use and develop the new analysis method. The results of the portfolio simulations will then become part of the overall trade-off between cost and risk that is to provide the foundation for the guidelines decision.

Simulations and assumptions lay groundwork for calculations

In the analysis, we simulate different paths for interest rates and inflation ten years ahead starting at the end of 2024. The simulations then form the basis of the calculations of cost and risk for hypothetical portfolios with different maturities and compositions. The mean value for interest rate and inflation paths converges towards historical mean values. Risk is calculated as the difference between the mean value of costs for simulation paths with a cost above the 95th percentile and the mean value of all simulations. This measurement is to capture the variation in cost between high-cost scenarios and the average.

An assumption used in the analysis is that the Debt Office's actions do not affect the pricing of the bonds in each maturity. This means, for example, that the yield on a one-year bond does not change regardless of the supply. In reality, we are not able to change the volume too much without affecting pricing.[4] In the regular auctions, we prioritise increasing the outstanding volume in the ten-year reference bond, but we also issue in the five- and ten-year reference bonds. In this way, we contribute to maintaining a well-priced yield curve with liquid points. This involves lower liquidity premia and thereby lower borrowing cost for the central government. In the analysis presented below, we do not make any attempt to speculate on what the pricing would have looked like historically if the Debt Office were to have issued in another manner. The analysis therefore focuses on hypothetical portfolios that closely resemble historical issuance patterns.

Both the Debt Office's borrowing and the economic trends in Sweden and internationally can affect interest rates in the Swedish market. Our analysis uses

[3]See Focus Report, "Framework for analysing cost and risk for central government debt – A simulation analysis".

[4] In-depth discussions about the effect of the Debt Office's actions are available in the reporting of the Government assignment to examine whether the evaluation of the overall objective can be made easier: Reg. no. 2016/1345.

historical interest rates and inflation outcomes. We make no attempt to include other future scenarios that may be reasonable but depart from historical patterns.

Portfolios with different maturities for balancing cost and risk

To analyse the maturity interval, we construct five hypothetical portfolios with different maturities. The precise distribution is shown in table 1. Portfolio 3 (target value) broadly represents the Debt Office's current strategy in terms of distribution between long and short maturities. The portfolio's composition is achieved through issuing a large proportion of ten-year bonds and a smaller proportion of bonds with maturities of five and two years. It also includes instruments with a maturity of one year (corresponding to treasury bills) and inflation-linked bonds.

The Debt Office also currently has three ultra-long bonds, the maturities of which were 25, 30, and 50 years on introduction. [5] These are excluded in the simulation analysis because they make up a relatively small part of the debt in terms of nominal amounts and also because they are not part of the regular borrowing, which is focused on issuing ten-year bonds. The existing ultra-long bonds also do not contribute to cost variation before they mature.

In table 1 we present two different measurements of the average maturity for each portfolio. In the Maturity (model) column, we show the maturity for the hypothetical portfolios where the longest maturity is ten years. The Maturity (total) column includes the ultra-long bonds. There, the model portfolio is given a weight of 94 per cent and the three ultra-long bonds a weight of 6 per cent during the simulation period, which is ten years as of 2025. Portfolio 3 (target value) then receives a total maturity of 4.75 years, which is the midpoint of the current maturity interval.

Table 1 Composition of hypothetical portfolios with different maturities

Portfolio	Nom 1YR	Nom 2YR	Nom 5YR	Nom 10YR	Infl.-linked 10YR	Maturity (model)	Maturity (total)	Share of refinancing within one year
1 (short)	39%	3%	7%	41%	10%	2.94	4.0	47%
2	27%	3%	7%	53%	10%	3.47	4.5	37%
3 (target value)	21%	3%	7%	59%	10%	3.74	4.75	31%
4	15%	3%	7%	65%	10%	4.01	5.0	26%
5 (long)	4%	3%	7%	76%	10%	4.54	5.5	15%

[5] The long bonds are SGB 1053 (with a 14-year maturity and nominal amount of SEK 42 billion), SGB 1063 (with a 21-year maturity and nominal amount of SEK 18 billion), and SGB 1064 (with a 46-year maturity and nominal amount of SEK 10 billion). Figures from January 2025.

Note: The rows show five hypothetical portfolios that are achieved through issuing one-year, two-year, five-year, and ten-year nominal bonds as well as ten-year inflation-linked bonds. Term to maturity is interest rate refixing period and expressed in years. Maturity (model) is maturity for the hypothetical portfolios made up of different combinations of bonds with a maturity of up to ten years. If we add the ultra-long bonds, the maturity gets longer as shown in the Maturity (total) column. Portfolio 3 (target value) has, for example, a maturity of 3.74 according to the model and a corresponding 4.75 years when taking the ultra-long bonds into account. The last column shows the size of the portion that is maturing and therefore needs to be refinanced every year. For example, 47 per cent of the debt matures in portfolio 1 (short) within one year, whereas 15 per cent matures in portfolio 5 (long).

Source: The Debt Office.

Table 2 Cost and risk for hypothetical portfolios with different terms to maturity in 2025

Per cent of central government debt

Cost	1 (short)	2	3 (target value)	4	5 (long)
Average cost	1.57%	1.61%	1.62%	1.64%	1.68%
Extra cost in unfavourable scenarios	1.29%	1.18%	1.12%	1.07%	0.96%
Total cost in unfavourable scenarios	2.86%	2.78%	2.75%	2.71%	2.64%

Note: The average cost per year is based on 10,000 simulations between 2025 and 2034. Bonds with a maturity longer than ten years are excluded from the table. Unfavourable scenarios refer to the 500 simulations with high cost. In these scenarios, the cost exceeds the 95th percentile of 10,000 simulations. The second row captures risk as cost variation and shows an extra cost in the simulated scenarios with high cost compared with the cost on average. The third row – the sum of the first and second rows – shows the cost in unfavourable scenarios.

Source: The Debt Office.

In the scenario with an unfavourable cost trend, portfolio 1 (short) has a cost of 2.86 per cent, which yields an extra cost of 1.29 percentage points relative to the average. The corresponding cost for portfolio 3 (target value) is 2.75 per cent, lower than for the short portfolio. Portfolio 3 (target value) is, in other words, marginally more expensive on average but less risky with a lower cost in extreme cases.

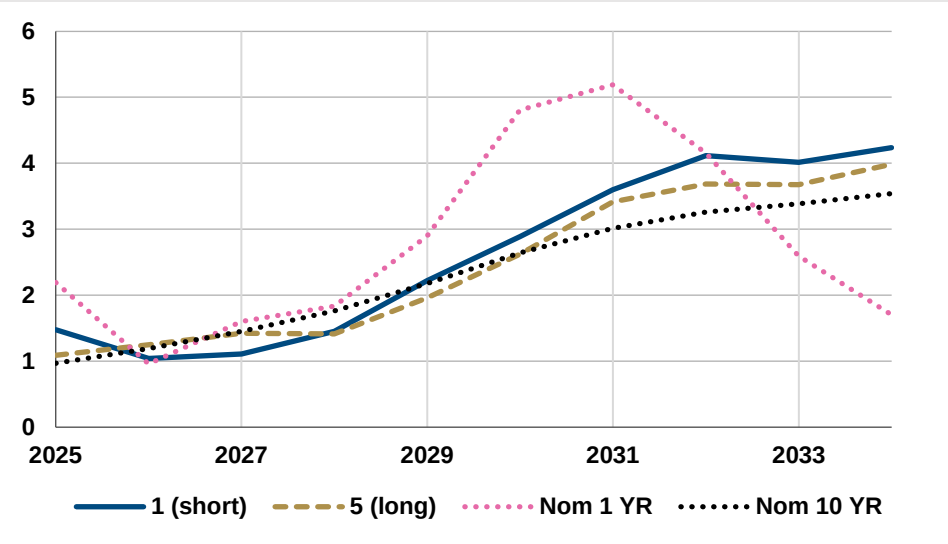
In the same manner, portfolio 5 (long) generates a total cost of 2.64 per cent in unfavourable scenarios. Extending the term to maturity to portfolio 5 thereby creates insurance against high costs in unfavourable scenarios, but this comes at the expense of an increased average cost.

The above results confirm the notion that shorter maturities are associated with lower cost but higher risk. The difference between maturities is, however, small both in regard to average cost and risk in terms of extra cost in unfavourable scenarios. Between portfolio 1 (short) and 5 (long), the cost and risk differ by approximately 0.1 and 0.3 percentage points, respectively.

One reason the cost difference is relatively small in table 2 is that the historical data that form the basis of the calculations and term premia were low at the end of the 2010s. This also affects the simulation models' future costs. As a robust analysis, we therefore also estimate cost and risk for the same hypothetical portfolios from 2010 and ten years forward. The cost difference between portfolio 1 (short) and 5 (long) then amounts to approximately 0.6 percentage points instead of 0.1 percentage point in the results for the 2025–2034 period.

Figure 6 Costs for different portfolios over time for the 95th percentile

Per cent



Note: The figure shows costs for different hypothetical portfolios between 2025 and 2034. The costs correspond to the 95th percentile of all simulated paths. Nom 1 YR and Nom 10 YR show costs for portfolios that consist solely of one-year nominal bonds and ten-year nominal bonds, respectively.

Source: The Debt Office.

Figure 6 shows how the cost that corresponds to the 95th percentile develops over time for different portfolios. The is done to visualise the risk presented in table 2. The cost for the 95th percentile for a portfolio consisting of one-year nominal bonds increases almost threefold between 2028 and 2031, to then decrease again. The cost does increase for the portfolio of ten-year nominal bonds, but the change from year to year is smaller.

The cost for portfolio 1 (short) increases from 1.5 per cent to 4.2 per cent between 2025 and 2034. Just as with ten-year nominal bonds, portfolio 5 (long) shows less variation than the portfolio with one-year nominal bonds. The difference between portfolio 1 (short) and 5 (long) is, however, small.

Composition can be analysed in similar manner

The simulation method can also be used to illustrate how the composition of the central government debt affects cost and risk. In table 3, we have constructed a new hypothetical portfolio 6 (inflation-linked) where the inflation-linked share is higher than in portfolio 3 (target value).

Table 3 Composition of hypothetical portfolios with different compositions

Portfolio	Nom 1YR	Nom 2YR	Nom 5YR	Nom 10YR	Infl.-linked 10YR	Maturity (model)	Maturity (total)	Share of refinancing within one year
3 (target value)	21.4%	3%	7%	58.6%	10%	3.74	4.75	31.2%
6 (infl.-linked)	21.4%	3%	7%	44.6%	24%	3.74	4.75	31.2%

Note: The rows show hypothetical portfolios that are constructed by issuing one-year, two-year, five-year, and ten-year nominal bonds as well as ten-year inflation-linked bonds. Maturity is interest rate refixing period and expressed in years. The last column shows the portion that is maturing and therefore must be refinanced every year. The share is 31.2 per cent of the debt for both portfolios.

Source: The Debt Office.

With the aid of simulated interest rates and inflation, we calculate cost and risk for each portfolio. Table 4 shows that a higher inflation-linked share is associated with a higher average interest cost and a larger increase in cost in unfavourable scenarios. The results support last year's decision to decrease the inflation-linked debt.

Table 4 Cost and risk for hypothetical portfolios with different compositions in 2025

Per cent of central government debt

Cost	3 (target value)	6 (infl.-linked)
Average cost	1.62%	1.64%
Extra cost in unfavourable scenarios	1.12%	1.22%
Total interest cost in unfavourable scenarios	2.75%	2.86%

Note: Average cost is the average cost per year based on 10,000 simulations between 2025 and 2034. Long bonds with maturities of more than ten years are excluded from the table. Unfavourable scenarios refer to the 500 simulations with high cost. In these scenarios, the cost exceeds the 95th percentile of 10,000 simulations.

Source: The Debt Office.

Portfolio simulations complement previous analysis methods

The new analysis method with simulations is a complement to the methods the Debt Office has used previously for analysing what maturity and composition the central government debt should have. The results of the different methods confirm one another.

The Debt Office has previously calculated the ten-year term premium according to the ACM model as a basis for decisions on proposing maturity. An updated picture of the term premium is also presented in this report's chapter on conditions. Both the ACM model and the portfolio simulations capture the expected cost difference for different maturities and indicate a slightly higher expected cost but longer maturity, even though the two methods use different technical solutions for

modelling interest rates.[6] What the portfolio simulations help to show is that a portfolio with a longer term to maturity also involves reduced risk.

In previous proposed guidelines, the Debt Office has also presented the difference between break-even inflation and expected inflation, as a way to measure the expected cost savings for issuing inflation-linked bonds instead of nominal bonds with the same maturity. The portfolio simulations also measure the expected cost difference between different proportions of inflation-linked debt. The difference between the methods mainly pertains to how future inflation is derived. The first model uses Prospera's survey whereas the second one models inflation in a time-series model. The results of the portfolio simulation show, as in the previous analysis, a higher cost for a portfolio that has a larger share of inflation-linked bonds. The conclusions for the central government debt's composition are therefore the same irrespective of which method we use.

The results of the portfolio simulations depend on the choice of evaluation period, and the different methods do not necessarily lead to the same conclusions. This indicates a need for continued analysis that weighs together the results from different models and evaluation periods in a comprehensive assessment.

Overall balance between cost and risk

In the Government's guidelines, a trade-off is made between cost and risk, mainly through the targets for the central government debt's composition and term to maturity. This regulates the interest rate refixing risk, inflation risk, and currency risk in the debt management. In order to make an overall trade-off, we also need to take the guidelines on refinancing risk, financing risk, and market liquidity risk into consideration. Table 5 presents the financial risks included in the debt management and how they are connected to the Government's guidelines

Table 5 Different financial risks and connection to Government's guidelines

Type of financial risk	Guideline points
Interest rate refixing risk	The term to maturity of the central government debt is to be between 3.5 and 6 years. Term to maturity is to be measured as average time to refixing.
Inflation risk	The outstanding stock of inflation-linked krona debt is to be gradually reduced. At the end of 2029, the inflation-linked debt is to reach a target level of approximately SEK 80 billion.
Currency risk	• The strategic exposure of the central government debt in foreign currency is to be gradually phased out and attain the target value of zero as of 2027. • The currency exposure may however also vary in the future as a result of the Debt Office carrying out currency

[6] A more thorough description of the simulation model is available in appendix 1 of *Central Government Debt Management – Proposed Guidelines 2025–2027*.

Type of financial risk	Guideline points
	exchanges. Currency exchanges are to be characterised by predictability and clarity. • The Debt Office may take positions in foreign currency and the krona exchange rate (according to the mandate given in the guidelines).
Refinancing risk	The Debt Office is to take account of refinancing risks in the management of the central government debt.
Financing risk	• 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. • The Debt Office is to contribute, through its market support and debt maintenance, to the effective functioning of the government securities market.
Market liquidity risk	The Debt Office is to contribute, through its market support and debt maintenance, to the effective functioning of the government securities market.
Credit risk	The Debt Office is to place its funds in an account or in debt instruments with a low credit risk (according to the Ordinance Containing Instructions for the National Debt Office).

As presented in the previous section, the results of the portfolio analysis show that the central government can decrease the expected average cost of the debt slightly with a portfolio that has a shorter term to maturity, if the risk of a higher cost in an unfavourable scenario is considered acceptable. An alternative is to choose a portfolio that has a longer maturity, and thereby lower risk, at the expense of a slightly higher cost. The Debt Office's assessment is, however, that the differences between the options are so small, relative to the model's uncertainty, that they do not constitute a reason to change the maturity interval. Neither does the analysis of term premia. And even if these quantitative analyses had indicated a compelling reason for a change, other aspects must also be weighed in.

One of these is how large the proportion of short-term funding should be. On the one hand, it must be large enough to meet variations in the borrowing requirement and to prevent excessive borrowing. Sweden therefore has a relatively short term to maturity by international comparison.[7] On the other hand, too much short-term funding may be associated with excessive refinancing risk, i.e. difficulty replacing maturing loans without the cost becoming too high.

The size of the central government debt is also a factor to take into account when choosing the term to maturity. A larger debt brings with it higher interest cost and higher risk in the form of greater variation in interest cost (expressed in kronor). A progression towards a larger central government debt might therefore decrease the central government's willingness to take on risk, and justify extending the term to maturity.

[7] Sweden has the fourth-lowest term to maturity (measured as average time to maturity) of all OECD countries. Source: OECD (2025), *Global Debt Report 2025: Financing Growth in a Challenging Debt Market Environment*, OECD Publishing, Paris, https://doi.org/10.1787/8ee42b13-en.

The Debt Office advocates a precautionary principle regarding changes in the maturity steering. We proceed with transparency and a long-term approach. Decisions on changes to the debt's term to maturity should be based on conclusions that withstand time, not for instance on short-term changes in term premia or other factors prone to fluctuation.

The Debt Office shall also contribute, through its market support and debt maintenance, to the effective functioning of the government securities market (point 16 in the proposed guidelines). We do this mainly through the borrowing strategy of issuing nominal bonds with maturities of ten, five, and two years in order to maintain a well-priced yield curve with liquid points. This allows investors to buy government securities without requiring an extra return due to uncertainty or insufficient market liquidity. The result is lower borrowing costs for the central government over the long term. Issuing in a consistent manner according to the above strategy does, however, sacrifice flexibility, and redirecting the borrowing strategy would therefore require a number of operational considerations. For these reasons, the Debt Office has historically changed the term to maturity with the aid of derivatives, but this method also has its limitations.

On the whole, the above trade-offs mean that the choice of possible portfolios is limited to those that are relatively close to the portfolio we currently have. Neither the portfolio analysis nor other trade-offs unequivocally indicate lengthening or shortening the term to maturity. Therefore, the Debt Office's overall assessment is that the maturity interval should be kept unchanged. Both the analysis and the trade-offs that the Debt Office makes in regard to maturity are a continual effort and will also be addressed in forthcoming guidelines proposals. We do not propose at present any change to the steering of the debt's composition either.

More accurate point on refinancing risk

As with refinancing risk, interest rate refixing risk is connected to what maturity the central government debt has, but it is important to differentiate between these risks. Refinancing risk is about whether the central government will be able to borrow on reasonable terms at a specific time. The occurrence of many redemptions within a short window of time creates a high refinancing risk, partly because the interest rate terms could be unfavourable at that time, and partly because, in extreme cases, it could be difficult to refix maturing loans.

To capture interest rate refixing risk, the Debt Office uses the maturity measure ATR. We can, however, steer the maturity by for example shortening the interest-rate fixation period of the nominal debt using derivatives. This measure of term to maturity is therefore not a good indicator of how much time remains until the loans mature and must be refinanced. If the debt must be refinanced frequently, the exposure to changes in market conditions increases, which can make it difficult to obtain new financing on reasonable terms. The Debt Office takes account of this risk in how we plan the borrowing.

Current guideline point and proposed change

The Debt Office proposes a change to the guideline point on refinancing risk because the current wording could be misinterpreted. The change is to remove the subordinate clause in the following point:

“The Debt Office is to take account of refinancing risks in the management of the central government debt, including by issuing instruments with more than twelve years to maturity.”

Refinancing risk refers to the consequences of concentrated redemptions in the coming years, and there is no significant difference between a ten-year and 30-year bond in that respect. Both maturities are beyond the time horizon that is reasonable to take into account when analysing refinancing risk. The subordinate clause thereby risks being misleading in regard to how the Debt Office manages refinancing risks.

Debt Office’s risk management process

As we previously described (see the chapter on conditions), Sweden has stable central government finances and a high credit rating. Historically, the best insurance against refinancing risk has been to maintain strong central government finances. Ensuring that there is a well-functioning market for Swedish government bonds also contributes to keeping refinancing risk down, because stable demand decreases the risk of the central government not being able to borrow on reasonable terms over time. The Debt Office plans its borrowing long term – and we spread out the refinancing over time by distributing issuance volumes over different outstanding bonds in regularly held auctions on many occasions.

The Debt Office also takes refinancing risk into account in other ways. One is to distribute the central government debt over many loans with different maturity dates. This means that only a smaller portion of the outstanding stock of bonds matures and must be refinanced every year. We also endeavour to keep bond redemptions relatively even in size and schedule them to coincide with periods when the central government has large incoming payments (May or October).

A large concentration of maturing loans in the short term, such as the next twelve months, entails an increased refinancing risk. As a rule, however, the Debt Office plans for a fairly large share, around 20-30 per cent, of the central government debt to reach maturity in the coming year. This is because the agency needs to have relatively extensive short-term borrowing for managing seasonal patterns in the central government’s payments and deviations from forecasts of the budget balance (see the chapter on conditions).

Since 2013, in the annual basis for evaluation of central government debt management, the Debt Office has presented different measurements of refinancing risk and explained how we have managed this risk. We will continue to report how we take account of refinancing risk in the debt management.

Reworded guideline points on evaluation

As part of an assignment from the Government, the Debt Office has analysed how the evaluation of central government debt management should be structured and developed (see the next chapter). On the basis of the analysis, the Debt Office proposes that the points on evaluation in the guidelines be worded as follows.

Point 37 (renumbered and adjusted): Evaluation of the management of the central government debt is to be carried out in qualitative terms in light of the knowledge available at the time of the decision. The evaluation is also to include reporting of quantitative measurements and results where possible and relevant. The reporting is to cover five-year periods.

Point 38 (new): The Government's decisions on guidelines for the central government debt's composition and term to maturity are to be evaluated according to the objective of debt management and the analysis that the Debt Office presents in its proposed guidelines. There, it shall also be made clear how the proposed changes to the guidelines are to be evaluated. The Debt Office is also to analyse how the composition and term to maturity have developed.

Point 39 (new, which replaces the previous point 40): The Debt Office's decisions on central government borrowing are to be evaluated according to the objective of central government debt management and the Government's guidelines for the debt's composition (19–21), the debt's term to maturity (22), refinancing risks (14), borrowing preparedness (15), and market support and debt maintenance (16).We propose that the current point 41 on reporting the inflation-linked borrowing be removed since the evaluation of the composition is covered by the new point 38. The current points 42 and 43 on evaluation of positions and the reduced foreign currency exposure, respectively, are renumbered but otherwise unchanged.

Editorial changes to guidelines

The Debt Office proposes some editorial changes to the guidelines in order to clarify and simplify how they read. The first change is to move the section "Cost and risk" in front of the section "Composition of central government debt" and "Term to maturity of central government debt". The reason for this change is to have a more logical order by first introducing that the trade-off between expected cost and risk should be made primarily through the choice of composition and term to maturity, and what that entails. We will then address what the composition and maturity should look like in order to make this trade-off.

The Debt Office also proposes removing point 13 "The Debt Office is to set a target value for the distribution of the foreign currency debt among different currencies" and point 27 "The Debt Office is to adopt principles for market support and debt maintenance". These points are repetitions of what is already stated in point 10: "The Debt Office is to adopt internal guidelines based on the Government's guidelines. 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."

Given the proposal to remove point 27, the Debt Office also proposes removing the heading “Market support and debt maintenance”. The only point remaining under the heading – “The Debt Office is to 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” – also fits under the section “Cost and risk”, which is where we propose it should be moved to.

Assignment to develop evaluation

As an assignment by the Government, the Debt Office has examined whether the evaluation of central government debt management can be developed and, if so, how. Sweden has a clear evaluation process and transparent reporting of the cost and risk involved in debt management. The balancing of cost and risk could, however, be evaluated in even further detail. This applies in particular to the steering of the debt's term to maturity. The Debt Office therefore intends to develop the analysis in the proposed guidelines and by doing so provide a better foundation for the guidelines decision and their evaluation.

The primary focus of the objective of central government debt management is to minimise the cost of the debt, but at the same time the risks must not be too high. Therefore, debt management decisions are often about weighing expected cost against different degrees and types of risk. This involves the Government's decisions on the targets for the debt's composition and maturity as well as the Debt Office's choice of borrowing strategies and operational decisions. Evaluation of debt management must therefore cover both the Government's guidelines and their implementation by the Debt Office.

In February each year, the Debt Office submits a report to the Government providing the basis for this evaluation. In April every other year, the Government in turn submits an official communication on the evaluation to the Riksdag. The Government then also utilises an external evaluation from the Swedish National Financial Management Authority (ESV). The Debt Office's role in the evaluation is to contribute relevant and lucid documentation so that the evaluators can assess whether the central government debt has been managed in accordance with the overall objective.

In the most recent evaluation, which covered the 2019–2023 period, it was the assessment of the ESV, the Government, and the Riksdag's Committee on Finance that the debt management had been conducted in accordance with the objective. At the same time, the ESV pointed out that it was difficult to reach definite conclusions on how cost and risk are affected by the debt's composition and maturity based on the available documentation. The ESV therefore encouraged the Government to clarify which aspects the Government intends to evaluate and thereby which documentation is to be provided by the Debt Office.[8] The Government subsequently gave the Debt Office an assignment to:

[8] *Evaluation of central government borrowing and debt management 2019–2023*, the ESV 2024:27.

- justify which aspects of central government debt management should be evaluated, and how
- analyse whether, and propose methods for how, the debt management evaluation can be developed and clarified
- address in particular how the balancing between the cost and risk involved in the debt management can be evaluated.[9]

The Debt Office has developed the basis for evaluation in recent years but still sees potential for improvement. As part of this Government assignment, we propose here methods for further clarifying and developing the evaluation, mainly in regard to the overall trade-off between cost and risk. We begin, however, with the question of what aspects of debt management are relevant to evaluate and how the evaluation should be conducted fundamentally.

What aspects should be evaluated and how?

The purpose of the evaluation is to contribute to the democratic monitoring of central government debt management on the basis of the objective, and also to gain knowledge in advance of new decisions on how the debt should be managed. The evaluation therefore focuses primarily on assessing whether the decisions made in managing the debt are expected to minimise its long-term cost while taking account of risk. These decisions address three aspects of the management:

- the debt's composition and term to maturity (portfolio characteristics)
- borrowing (including liquidity management)
- position taking.

The composition and term to maturity of the debt are determined by the targets in the Government's guidelines and should therefore be evaluated mainly by what we henceforth call the guidelines level. Decisions on borrowing and positions are made by the Debt Office at the operational level on the basis of the parameters set by the guidelines. In the borrowing, this involves for example deciding on strategies and borrowing plans that take into account the targets for composition and maturity as well as the guideline points on considering refinancing risk, having good borrowing preparedness, and supporting and maintaining the government securities market. The operational decisions also involve how the Debt Office conducts its issuance and cash management.

In the last two yearly evaluation reports, the Debt Office has made a more distinct division between decisions at the guidelines level and the operational level, which the ESV welcomed in its latest evaluation. One reason to differentiate between the levels is that the guidelines decision contains policy positions such as what risk (in the form of cost variation) the government is willing to accept. Another reason is that it should be clear which decisions the Debt Office bears responsibility for.

According to the Government's guidelines, the fundamental principle of the evaluation is that it is to be "carried out in qualitative terms in light of the

[9] Appropriation directions for the Swedish National Debt Office 2025.

knowledge available at the time of the decision". In other words, this means assessing whether the debt management decisions made by the Government and the Debt Office are well-balanced and supported by solid analysis. Furthermore, the evaluation is also to include quantitative measures "where possible".

The above principle means that there needs to be lucid documentation presenting the analyses that form the basis of the decisions at different levels. This is where the Debt Office's proposed guidelines play a particularly important role. In addition to producing such documentation in advance of decisions that can be subsequently evaluated, the Debt Office must also report quantitative measurements and results afterwards. According to the current description, this is to be done where possible. On this matter, we suggest adding an addendum stating that the measurements and results presented must also be relevant in terms of the purpose of evaluation, which we will return to.

In the next section, we present methods for improving the evaluation of the three aforementioned aspects. We then summarise the aspects, methods, and measurements at the end of the chapter.

Composition and maturity – developed analysis

When it comes to decisions at the guidelines level, the Debt Office sees the most potential for development in regard to the evaluation of trade-offs between cost and risk. The Debt Office can contribute above all by providing a more extensive analytical basis for the Government's decision on the debt's composition and term to maturity. We can also provide further analysis regarding the quantitative measurements and results that we present in connection with the decisions.

More in-depth analysis provides better grounds for evaluation

A clearer and more extensive analytical basis in advance of the Government's decisions on the guidelines improves the evaluators' prospects of being able to assess the choice of maturity and composition in accordance with the objective.

Conditions for evaluating debt composition are already good

One example of the importance of the analyses in the proposed guidelines is the evaluation of the decision to reduce the central government debt's foreign currency exposure. The analysis that the Debt Office presented in the proposed guidelines enabled the ESV to make a clear assessment of the decision as follows:

"Since the analysis clearly shows that the foreign currency exposure does not involve any systematic cost savings, while the risk in the form of cost variation increases, it is reasonable to phase out the exposure. The phasing out is to be conducted over a four-year period. The central government's borrowing preparedness is not affected by the phase-out, since the Debt Office still has the possibility of raising loans in foreign currency in the market. This is because the

currency exposure is created via derivative instruments. Nor does the ESV have any objections to the chosen length of the phase-out period."[10]

In a similar manner, the Debt Office presented in last year's proposed guidelines a thorough account of the analysis and reasons behind the proposal to decrease the proportion of inflation-linked bonds in the debt composition as of 2025. This thereby provides a good foundation for the evaluation of the decision.

Basis for decision on term to maturity can be built out with new analysis
In regard to the term to maturity of the central government debt, the basis for decision in recent years has consisted of analyses of term premia, in order to determine if there are reasons to lengthen or shorten the average maturity. In the evaluation documentation, the Debt Office has then presented how the term to maturity has developed in relation to the target interval and explained the development. This documentation does not, however, fully suffice as a basis for evaluating the maturity steering. The ESV points out the following in its evaluation:

"In regard to the term to maturity of the central government debt, neither the guidelines decisions nor the actual maturity of the debt have been evaluated in terms of the effect on cost. This is because the Debt Office has not analysed this in its basis for evaluation. The Debt Office refers to the fact that the target for maturity has not changed in the evaluation period and that there is no evaluation point specifically for term to maturity in the guidelines. In its proposed guidelines for central government debt management in 2024, however, the Debt Office included an analysis of the term premium, which is a common method for analysing how cost affects choice of maturity."

Altogether, the Debt Office's view is that what would best facilitate the evaluation of the term to maturity is a more thorough analysis in future proposed guidelines, irrespective of whether the proposal is to change the maturity target or retain it. We therefore intend to provide, in the proposed guidelines, a recurring section on monitoring interest rate refixing risk and analysing its impact on the balancing of cost and risk in the decision on maturity steering. The analysis to this effect will employ the method of simulating different portfolios described in the In-depth section on page 20. A comprehensive assessment, which also weighs in other risks and aspects, will be carried out in a similar manner as in this year's proposal.

Reporting of cost and risk – and results when relevant

In addition to presenting clear documentation in advance of the guidelines decisions, the Debt Office will, as stated, present quantitative measurements and results. These include outcomes of the cost and cost variation of the debt as a whole as well as for different debt types, the development of the term to maturity and the composition, and counterfactual results of different guidelines decisions where possible and relevant.

[10] *Evaluation of central government borrowing and debt management 2019–2023*, the ESV 2024:27.

Reporting of cost and risk is already largely included in the Debt Office's basis for evaluation, but we could further clarify our explanations of the measurements and the changes in them. This could, for example, entail explaining why the term to maturity at the time is above or below the midpoint of the steering interval, if that were to be the case.

As we previously emphasised, the evaluation of the guidelines decisions on composition and maturity mainly pertains to assessing the basis for decision (the ex-ante analysis that forms the foundation for the trade-off between cost and risk). In some cases, it may also be justified to produce some form of counterfactual results in order to follow up on the decision (ex-post). First, the question of whether such results are relevant to report should be addressed. There are several flaws with this type of comparisons with alternative scenarios, as described below. If they are used nonetheless, it must be made clear which conclusions are possible, and not possible, to discern from the findings.

Weaknesses of counterfactual results puts their relevance into question
The first reason for proceeding with caution in regard to counterfactual evaluation is that the guidelines decision itself may affect the central government's borrowing cost and thereby also the counterfactual courses of action. The difficulties can be summarised with the following quotation: "If the actual benchmark is affected by that which is to be evaluated, the evaluation itself becomes difficult to interpret." (From the government inquiry Statsskuldspolitiken SOU 1997: 66, p 15).

When it comes to the proportion of inflation-linked debt, the Debt Office proposed in the 2025–2027 guidelines proposal that the outstanding inflation-linked debt be reduced to a level that better matches the demand for inflation-linked bonds that is rooted in the need to ensure against inflation risk. The Debt Office's actions are thereby expected to affect the relative pricing between inflation-linked bonds and nominal bonds. The problem from an evaluation perspective is therefore that we do not know what the relative pricing would have been in a counterfactual scenario in which the inflation-linked proportion was kept unchanged.

The other reason for prudence is that an overly narrow focus on realised costs can make it more difficult for an evaluation,the purpose of which is to take account of the balancing between cost and risk. The cost outcome of a certain course of action is a random result and thus does not capture the fact that different courses of action have different expected risks. For instance, in the proposed guidelines for 2025, the Debt Office presented its arguments for reducing the inflation-linked borrowing because it is associated with higher risk and at the same time no expected cost savings. This trade-off is not captured in the current evaluation point for inflation-linked borrowing (point 41) where only the realised cost difference is presented.

The third reason follows from the fact that the Debt Office does not proceed opportunistically based on expected short-term trends for interest rates and inflation. Instead, the assessments of structural factors such as different types of risk premia form the basis of the decisions on the central government debt's

composition and term to maturity. In order to capture and determine whether a certain strategy has been successful in a counterfactual evaluation, different courses of action would need to be followed over a long period. This is problematic since other conditions may change along the way and cloud the findings. Therefore, it also becomes difficult to determine whether factors that have historically benefitted a certain portfolio composition remain in place and are relevant for future portfolio decisions.

Since the counterfactual evaluation has the above-mentioned flaws, the Debt Office is of the opinion that the evaluation of the debt's composition and maturity shall rely primarily on an assessment of whether the forward-looking analysis in the proposed guidelines is reasonable and grounded in science and proven experience. Secondarily, we will report counterfactual results where possible and relevant.

Borrowing – clearer structure and more indicators

The Debt Office makes decisions about central government borrowing on the basis of the Government's guidelines, the objective of debt management, and forecasts of the borrowing requirement. The decisions concern principles, strategies, and plans for borrowing as well as standpoints on a regular basis in regard to issuance and cash management. The decision-making often involves weighing lower cost against higher risk and vice versa – or weighing different risks against one another.

Therefore, the basis for decision plays an important role in evaluating the operational management as well. In addition, we conduct an annual survey in which market participants assess market liquidity as well as the Debt Office's strategies and actions. We also endeavour to follow up on operational decisions using quantitative results where possible and relevant.

Clear principles and strategies facilitate evaluation

The way in which the Debt Office makes trade-offs in the operational activities is evident in the principles established in the Financial and Risk Policy as well as in internal guidelines that describe our borrowing strategies. In 2024, the Debt Office conducted an effort to clarify the principles in the policy and document the strategies. Illustration 1 shows how the governing documents relate to one another.

The primary purpose of the internal guidelines for borrowing is to guide the Debt Office's operational work. However, describing the strategies and approaches clearly also makes them easier to evaluate for outside parties. One can also follow how we plan our issuance on the basis of the strategies and forecasts in the report *Central Government Borrowing – Forecast and Analysis*.

The strategies and how we implement them are evaluated mainly through the annual survey of the Debt Office's primary dealers and investors in Swedish government securities. In addition, we monitor individual decisions quantitatively where possible. For example, we will do this for the decision to change the auction format for inflation-linked bonds as of 2025. We also, in the report on the basis for

evaluation, intend to further clarify the ways in which we steer the maturity, take account of refinancing risk, maintain good borrowing preparedness, and contribute to a well-functioning securities market.

Illustration 1 Governing documents for central government borrowing

Borrowing plans targeting midpoint of maturity interval

In the annual basis for evaluation, the Debt Office monitors how the average term to maturity (average time to refixing) has progressed in relation to both the overall steering interval for central government debt as a whole and the ranges for the individual debt types. In periods ahead, we also intend to explain more thoroughly the progression in relation to the midpoint of the steering interval, as this is the target we are aiming for in the issuance planning.

As previously mentioned, the Debt Office can affect the term to maturity both through the planned issuance of government securities and by using interest rate swaps. But regardless of whether or not we make changes to the borrowing plan or use swaps to adjust the maturity, the adjustment often occurs slowly. This is because we want to avoid responding to temporary variations in, for example, the budget balance or primary dealers' utilisation of the market maintaining repo facility. This means that the term to maturity varies.

Measuring refinancing risk can be enhanced by assessment

The Government has not set any quantitative targets for refinancing risk, but the Debt Office should nevertheless monitor this risk and show how it has been accounted for. In the basis for evaluation, we present among other things the debt's maturity profile and what proportions of debt are maturing in the next year and within three years. Looking ahead, the Debt Office also intends to examine the refinancing risk of Sweden's government debt from an international perspective.

When both measuring the debt proportions and making international comparisons, it is important to explain why the situation in Sweden is as it is and discuss what are considered normal levels and elevated risk.

More information on investor base can improve documentation

In the Government's guidelines, low financing risk is expressed as good borrowing preparedness. In the guideline point, it states that preparedness is to be achieved among other things through access to different funding currencies and a broad investor base. The guideline point on a well-functioning government securities market is also connected to financing risk, since this market is the central government's main funding source (see under the next heading).

Part of the evaluation that the Debt Office wants to develop at the operational level is the analyses of the investor base. In the new primary dealer agreements, we have clarified requirements for the information we need from primary dealers for such analyses. We also intend to explore the possibilities of gaining access to several data sources as a complement to the financial market statistics from Statistics Sweden that we already use. We may also conduct further analyses of the effects of various decisions on the investor base, such as when we choose to use syndication as selling format.

Market liquidity monitored through measurements and surveys

Besides lower financing risk for the central government, a well-functioning market also involves lower market liquidity risk for investors. They then do not need to demand compensation for such risk in the form of a higher yield when purchasing our government securities (liquidity risk premium). This risk premium is difficult to estimate, but lower market liquidity risk generally translates into less expensive borrowing for the central government, all else being equal.

The Debt Office monitors liquidity partly through a continual dialogue with market participants and partly through surveys and Finansinspektionen's measure of liquidity. In the basis for evaluation, we present the results of our own annual survey in which market participants assess and comment on market liquidity. We also include the Riksbank's survey and Finansinspektionen's measure. Utilisation of our market maintaining facilities and turnover in the government securities market serve as indicators of market liquidity in the basis for evaluation.

Position taking – unchanged evaluation method

The Debt Office sees no reason to alter the evaluation of positions that we take within the mandate established in the Government's guidelines. The result of the positions should continue to be recorded and evaluated in terms of market value.

Overall conclusions about future evaluation

In this reporting on the assignment about developing the evaluation, the Debt Office has justified which aspects should be evaluated and proposed how the evaluation can be developed and clarified. Table 6 presents an overview of the relevant aspects and the methods and indicators that can be used to evaluate them.

Table 6 Relevant aspects to evaluate and methods for evaluation

Aspect	Decision level	Method	Measure/indicator
Composition and maturity (portfolio characteristics)	Government's guidelines and operational management	• Assessment of basis for decisions (analyses in proposed guidelines) • Reporting of quantitative measurements and results	• Cost and cost variation • Savings/additional costs • Measure of interest rate refixing risk (ATR)
Borrowing (including liquidity management)	Operational management	• Assessment of basis for decisions (principles, strategies, borrowing plans, operational decisions) • Reporting of quantitative measurements and results	• Ratings for strategies and actions • Savings/additional costs • Issuance results • Measures of market liquidity • Measures of refinancing risk • Measures of borrowing preparedness (investor base)
Position taking	Government's guidelines and operational management	• Continual reporting of results	• Savings/ Additional costs

On the basis of the above reporting on the assignment, we propose that the points on evaluation in the guidelines be changed as described on page 30.

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

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