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Swedish National Debt Office's borrowing strategies

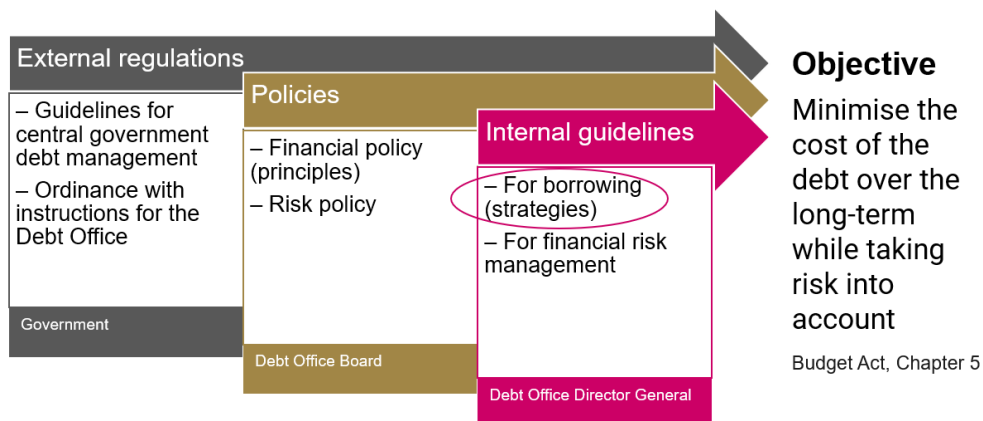
Summary

This document provides guidance in the Debt Office’s work on planning and implementing central government borrowing. The strategies described here derive from the objective of central government debt management and the frameworks provided by the Government’s guidelines and the financial policy decided by the Board of the Debt Office (see Illustration 1).

The document describes the strategies we use for minimising the cost of borrowing over time and for taking account of various risks. This includes the types of government securities we issue and how we distribute issuance among them. The strategies also concern communicating and acting in a way that promotes the Swedish government securities market.

The document is reviewed annually in connection with the Government’s decision on guidelines for central government debt management, or when altered circumstances or new analyses warrant an update.

Illustration 1 Governing documents for central government borrowing



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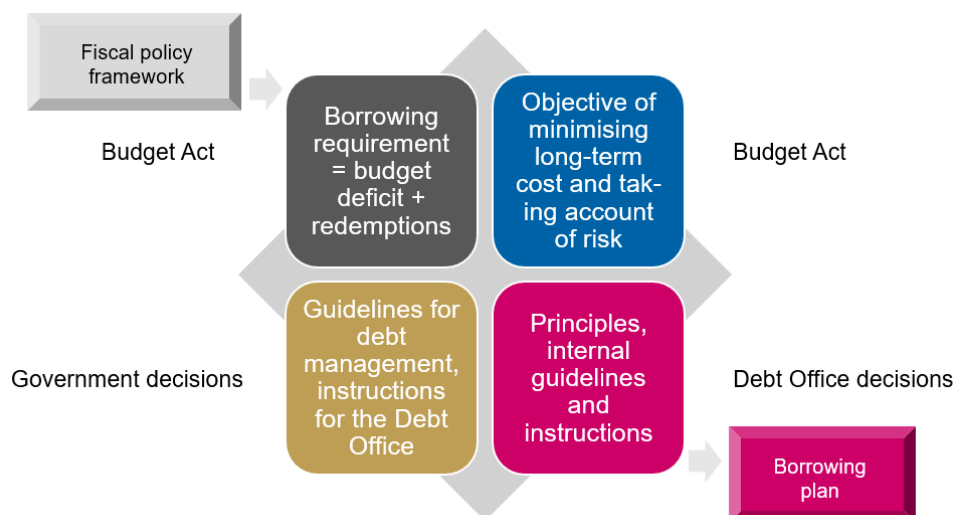
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1. Objective and framework

These guidelines are part of the debt management framework described in Illustration 2. The purpose for which the central government is to borrow (the borrowing requirement) and the objective of the management are set out in the Budget Act (2011:203). Within this framework, the Government decides on debt management guidelines and on instructions for the Debt Office, which stipulate that we are also to manage the central government's cash balance.

The money borrowed by the Debt Office is not earmarked for specific expenditures. Instead, it is used to cover the central government's total borrowing requirement. This includes financing the budget balance as well as refinancing maturing debt. The Debt Office is not allowed to borrow in excess of the borrowing requirement. This means that we may only have temporary cash surpluses to offset short-term fluctuations in the borrowing requirement.

Illustration 2 From the fiscal policy framework to the Debt Office's borrowing plan



The objective of central government debt management is set out in the Budget Act:

Central government debt shall be managed so as to minimise the long-term cost of the debt while taking the risk associated with its management into account.

The Government strikes an overall balance between cost and risk by setting target levels for the composition and the average time to refixing of the central government debt, following a proposal by the Debt Office. The target levels govern the *exposure* of central government debt to various market risks (interest rates, exchange rates, and inflation). In addition, the Government's guidelines include points concerning other risks and what is known as market support

and debt maintenance. These points have a more immediate bearing on how the Debt Office is to borrow – *financing* of the central government debt.

Based on these externally set objectives and frameworks, the Board of the Debt Office establishes principles for how the guidelines are to be implemented, which are described in the next section.

2. Principles governing our borrowing

The Board of the Debt Office shall decide on principles for how the Government's guidelines for central government debt management are to be implemented in practice. The principles are set out in a financial policy and are also presented here.

It follows from the Government's guidelines and the objective of central government debt management that the Debt Office shall act on the basis of a *long-term, strategic approach* to borrowing rather than on a short-term, tactical approach. This means that the Debt Office shall seek to ensure sound conditions for borrowing at a low cost over time by means of:

- issuing government securities in Swedish kronor regularly and acting in a way that contributes to a well-functioning Swedish government securities market
- communicating transparently and predictably about the central government's borrowing requirement and the supply of government securities in Swedish kronor
- maintaining capacity for borrowing in foreign currency
- managing financial risks in accordance with established target levels and rules
- using, if needed, derivatives to adjust the term to maturity and composition of the central government debt in accordance with the target levels for the exposure
- only entering into transactions for which the Debt Office possesses the competence, systems, and procedures to manage
- treating all counterparties professionally and objectively and avoiding actions that could harm the reputation of the Debt Office or the central government.

The principles form the basis for the strategies that guide work on planning and implementing borrowing.

3. Strategies for a lower cost over time

The cost of central government debt depends on numerous external factors such as the size of the debt, confidence in central government finances, and the development of interest rates, exchange rates and inflation. The Debt Office helps to minimise the cost, with due consideration for risk, by proposing and achieving a well-balanced debt portfolio, maintaining well-functioning funding channels, and borrowing transparently and predictably.

The strategies we apply in borrowing primarily concern acting and communicating in a way that enables investors to buy our government securities without requiring a yield premium due to uncertainty or lack of market liquidity. The smaller such uncertainty and liquidity premiums are, the lower the central government's borrowing cost will be, all else being equal.

The Debt Office therefore plans borrowing in different types of government securities and maturities in a predictable manner, as described in sections 4 and 5. We issue government securities regularly in auctions and use primary dealers to promote market liquidity (see section 6). Another important tool for reducing uncertainty is our communication, with the Central Government Borrowing report being key (see section 7).

4. Multiple instruments but a clear focus

The Debt Office issues both bonds in the capital market (maturities over one year) as well as treasury bills and other short-term instruments in the money market (maturities up to one year). Our approach for distributing borrowing between different instruments and maturities depends on several factors:

- the development of the borrowing requirement in the short and long term
- how we consider risks and the target levels for the average time to refixing and composition of the central government debt (although we can also partly adjust the exposure with derivatives, see section 5)
- the need to be able to manage both expected short-term fluctuations in the borrowing requirement and unexpected outcomes of the budget balance
- our strategic prioritisation of government securities in Swedish kronor and certain maturities
- the need to maintain multiple funding channels for contingency reasons.

Long-term borrowing must satisfy the central government's long-term borrowing requirement, which follows from the fiscal policy framework. It also helps to extend the average time to refixing of the debt and limit refinancing risk. Planned short-term borrowing needs to be large enough to enable us to offset short-term fluctuations in the borrowing requirement as well as reduce borrowing if budget balance performance is stronger than expected.

The Debt Office sets the minimum level for short-term borrowing based on estimates of forecast uncertainty that are founded on our historical forecasting errors. The objective is to avoid over-borrowing by having a sufficient volume of short-term debt that can be reduced at short notice if the borrowing requirement turns out to be lower than expected. At the same time, we do not want a larger volume of short-term borrowing than necessary, as this increases refinancing risk.

In long-term borrowing, the Debt Office prioritises nominal government bonds, as this is the market in which we see the best conditions for minimising cost over time. In addition, we use inflation-linked bonds and bonds in foreign currency to broaden the investor base and bolster our borrowing preparedness. Below is a more detailed description of how we use different debt instruments and prioritise between them in our planned borrowing.

4.1 Nominal government bonds are prioritised

Nominal government bonds are the Debt Office's most important funding source and are therefore prioritised over other instruments over time. We concentrate borrowing to the ten-, five- and two-year reference bonds in the Swedish government bond market¹. Concentrating the outstanding volume to a small number of bonds can promote more active trading in the secondary market and thus also fairer pricing.

We issue government bonds according to a set auction schedule. Spreading the borrowing out over multiple occasions reduces the risk of needing to borrow large amounts in unfavourable market conditions. At the same time, investors obtain continual access to Swedish government bonds through the auctions (primary market).

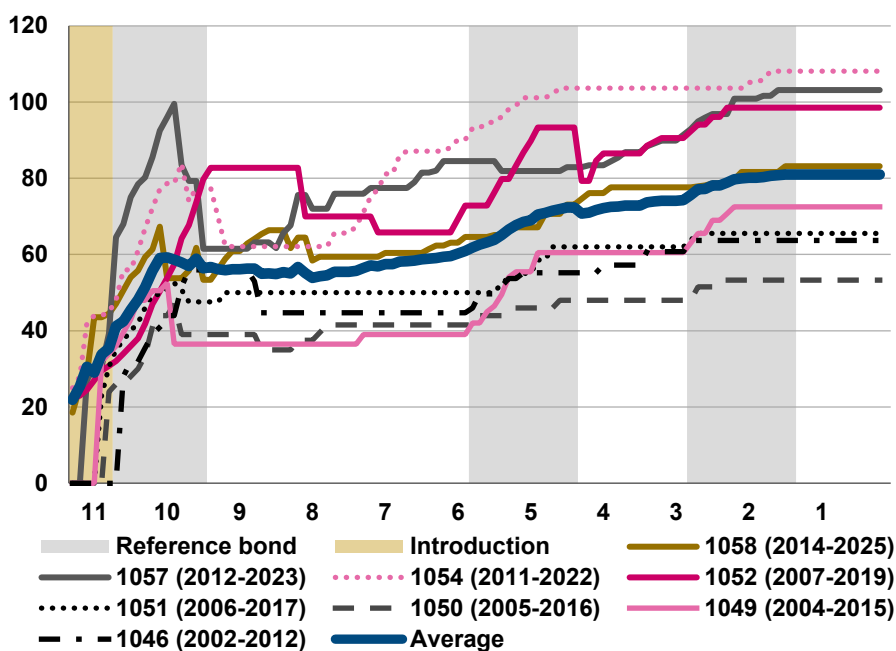
¹ Reference bonds are the bonds with terms to maturity that are closest to two, five, and ten years. They change on IMM (International Money Market) dates: the third Wednesday in March, June, September, and December. An underlying bond in a forward contract is always the same as a reference bond during the last three months of the contract.

4.1.1 New government bonds are introduced regularly

The Debt Office’s main strategy is to regularly introduce new government bonds with a term to maturity of just over ten years.² Ten-year government bonds are the most traded government securities, providing good pricing transparency and market depth. Many other governments also seek to promote liquidity at the ten-year point. This facilitates price comparisons and enables foreign investors to buy our government securities.

The Debt Office plans the introductions so that the outstanding bonds mature at 12-month intervals. On introduction, we quickly build up volume to the level required for the new bond to become a ten-year reference bond and deliverable in forward contracts. Thereafter, we periodically issue the same bond over its term to maturity. Figure 1 shows the development of the outstanding volume at different stages of the bond’s lifecycle.

Figure 1 The lifecycle of nominal government bonds



Note: The y-axis shows the outstanding stock and the x-axis the number of years to maturity for each bond. The yellow period denotes the introduction stage. The grey periods indicate when a bond is a reference bond on average (2, 5, and 10 years, respectively). This shows nominal government bonds introduced from 2002 with a maximum initial term to maturity of 11.5 years and maturing until the end of 2025. The legend shows the introduction and maturity years after the bond’s reference number.

² In the autumn of 2025, the Debt Office analysed the matter of introducing government bonds with a longer term to maturity (>12 years) on a regular basis. The overall assessment then was that there was no reason to do so, neither from a cost nor risk perspective.

Besides pure selling auctions, when introducing new bonds we usually also offer switches with other bonds to increase the outstanding volume of the new bond. We can also introduce a new bond through syndication to put a high volume out rapidly and reach more investors. In that case, a group of banks is tasked with marketing and selling the bond.

4.1.2 Regular issuances mainly in reference bonds

In the regular auctions between introductions, the Debt Office prioritises increasing the outstanding volume of the ten-year reference bond, while also tapping the five- and two-year reference bonds. That way, we help to maintain a well-priced yield curve with liquid points. This leads to lower liquidity premiums and thus lower borrowing costs for the central government.

When we allocate the issuance volume to different maturities in the borrowing plan, we use a distribution key with the largest share in the ten-year segment. The share can vary depending on, for example, the size of the borrowing requirement. In general, we distribute the issuance volume more broadly across the curve when the borrowing requirement increases, including to non-reference bonds (off-the-runs). As for the outstanding long-term bonds (>12 years), we periodically tap them to offer some activity at those points.

In the Central Government Borrowing report, we communicate the size of the planned issuance volume in each maturity segment until the next report.

4.2 Inflation-linked bonds serve as a complement

By issuing inflation-linked bonds, the Debt Office can attract investors wishing to hedge against inflation. According to the Government's previous guidelines for central government debt management, 20 per cent of the debt was to consist of inflation-linked bonds, but from 2025 the outstanding volume of such bonds is to decrease. The new target level is a nominal amount of approximately SEK 80 billion at the end of 2029.

The Debt Office is thus reducing the outstanding volume of inflation-linked bonds but is retaining the debt instrument. We therefore continue to regularly issue a certain volume. We do so – like with nominal government bonds – at auctions. We are reducing the outstanding volume by issuing a lower volume than the amounts maturing.

The Debt Office continues to introduce new inflation-linked bonds on a regular basis. The maturities at the time of the introductions are planned to be between 11 and 16 years to complement the existing bonds. Until 2029, the

stock will temporarily consist of up to eight maturities before the shortest ones have matured.

4.3 Green bonds and sustainability aspects

ESG (Environmental, Social, and Governance) is a term that encompasses all sustainability aspects and has come to play an increasingly important role in various investment decisions, including in purchasing government bonds. As the central government's point of contact for investors, the Debt Office therefore needs to communicate information about Sweden's goals, actions and risks in the field of sustainability. Such information is used in various classifications and assessments of the central government as an issuer, regardless of the type of debt instrument we issue.

The Debt Office has also issued a green bond on behalf of the Government. With this bond, investors were offered an investment option linked to specific green expenditure areas of the government budget such as climate investment, nature conservation, and railway maintenance. In order to issue more green bonds, certain conditions must be in place – an updated green framework and defined green expenditure items (government decisions), as well as a sufficiently large borrowing requirement to render diversifying funding appropriate.

4.4 Foreign-currency bonds provide flexibility

While issuing foreign-currency bonds usually comes at an additional cost to us, there are several reasons why we do so anyway. In the international capital market, we can borrow large amounts in a short space of time. Besides, we reach investors who do not frequently participate in the domestic market, which can diversify the investor base. Foreign-currency bonds are also a flexible form of funding, as we do not need to act as predictably in the international capital market as in our own market. This gives us flexibility to adjust timing, volume, and term to maturity for foreign-currency bonds.

If the borrowing requirement is high, foreign-currency bonds can offload the supply of government securities in kronor. However, we issue foreign-currency bonds also when the borrowing requirement is low – at longer intervals – to maintain presence in the international capital market. Any additional cost should then be seen as an insurance premium for preparedness to swiftly borrow large amounts in accordance with the principles of the financial policy.

Foreign-currency bonds are usually sold through syndication. We can also make private placements, in which we engage a bank to sell the bond to one or several investors.

When the Debt Office issues bonds or commercial paper in foreign currency (see section 4.5.2), we exchange the proceeds to Swedish kronor and hedge the loans with currency derivatives. The borrowing thus does not give rise to any currency exposure.

4.5 Short-term instruments offset fluctuations

In the money market, the Debt Office issues short-term debt instruments in both Swedish kronor and foreign currency. With these instruments – which mainly include treasury bills in kronor and euro commercial paper (ECP) – we can meet short-term liquidity needs, for example in the event of bond redemptions, seasonal fluctuations or unexpected payments. If there is a surplus in the cash balance, we temporarily place this in money market assets.

With sound forward planning, the Debt Office can assess various options for action and hence borrow and invest on better terms and reduce risks in liquidity management. The strategy is to deal with periods of significant short-term borrowing or investment needs in ample time with planned funding or investments. The remaining surpluses or deficits are then managed in the overnight market.

4.5.1 Treasury bills the basis of short-term funding

Like government bonds, treasury bills are issued predictably in auctions according to a set schedule. The difference for treasury bills is that the auctions in the plan contain different volumes on different dates, and that the volumes can then also be adjusted based on developments in central government payments. These properties – combined with a short term to maturity – make the bills a more flexible instrument than bonds. By varying the volume of bills, bond borrowings can also be kept more stable.

According to the Debt Office's strategy for treasury bills, every three months we introduce a new bill that matures on an IMM date (the third Wednesday in March, June, September, and December) and that has a term of at least six months. Depending on the size of the borrowing requirement, the IMM bill can instead be introduced as a nine- or twelve-month bill. In the other months, we introduce a new three-month bill. This means that, on each occasion, there are at least four outstanding treasury bills, two of which mature on IMM dates.

Besides auctions, the Debt Office can sell treasury bills on tap within the liquidity management operations. This applies to treasury bills with the two shortest maturities and with tailored maturities (liquidity bills).

4.5.2 Commercial paper provides extra flexibility

The Debt Office has an unlimited program for euro commercial paper (ECP). We issue ECPs in the liquidity management operations, with the purpose of funding any deficits in the central government's cash balance that remain after planned borrowings in bonds and treasury bills.

Commercial paper affords us greater flexibility in terms of timing, thus enabling us to act on the basis of market conditions in a different way than we do in the Swedish market. ECP borrowings are also hedged. With efficient currency management, the borrowing cost can be lower than for other short-term funding.

4.5.3 Other liquidity management instruments

The Debt Office is also able to borrow or invest in the overnight market with both Swedish and international participants. Choice of counterparty, instrument, and maturity is decided when executing individual transactions.

When the central government has a cash surplus for a lengthy period, the Debt Office can invest in covered bonds and certificates. If the amount is large, we often buy Riksbank Certificates with a one-week maturity, while investments through repos are usually made at a shorter maturity. When investing cash surpluses, we follow internal limits for credit risk.

5. Managing risks in borrowing

When planning borrowing, the Debt Office takes account of various financial risks, primarily interest-rate refixing risk, refinancing risk, and funding risk. We do this by, for instance, steering the average time to refixing of central government debt according to the Government's guidelines, considering the maturity profile of the debt, and ensuring good borrowing preparedness over time. Another factor to consider is reputational risk. We manage this chiefly by communicating transparently and acting clearly and consistently in the market.

The different types of risk may vary in their relative importance, both in relation to one another and over time, depending on how the central government's debt and risk appetite develop, as well as how the market functions.

5.1 Interest-rate refixing risk

The Debt Office plans borrowing so that the average time to refixing (ATR) is within the target-level interval decided by the Government and the internal guidelines for the separate debt categories. This limits the central government's interest-rate refixing risk – that is, the risk of fluctuations in interest expense when the interest rate on the debt is refixed.

When planning borrowing, as a rule the starting point is to steer the ATR towards the middle of the target interval over the forecast period. However, sometimes the plan may need to take account of aspects such as uncertainty about the borrowing requirement, or practical conditions that cause the ATR to miss the target in the short term.

The size of the central government debt and, in turn, its ATR are affected from day to day by fluctuations in the budget balance, through issuances and redemptions, market-supporting repos, and margin payments. Although the impact of these factors can be considerable at times, it can be forecast with relatively high certainty in the short term. In the longer term, forecasting uncertainty for the budget balance is significant, although the impact on the ATR is limited in that case because we adjust borrowing according to outcomes.

The Debt Office steers the ATR partly by distributing the issuance volume over government securities with different maturities. However, we can also use derivative instruments (mainly interest-rate swaps). Regardless of whether we alter the borrowing plan or use derivatives, the adjustment process is usually slow, because we want to avoid acting on temporary fluctuations in, for example, the budget balance or market-supporting repos.

The possibility of using derivatives enables the Debt Office, to some extent, to decouple borrowing from steering the debt exposure. This is important in enabling us to borrow in a way that promotes a well-functioning government securities market. For example, we can use interest-rate swaps to shorten the ATR as an alternative to redistributing issuance from government bonds to treasury bills. With interest-rate swaps, we can also harness the cost benefits of a shorter time to refixing without increasing the refinancing risk. There may also be cost reasons for using interest-rate swaps when the bonds are more favourably priced in relation to the swap curve than treasury bills are.

As a rule, the Debt Office does not use switching or outright repurchasing of bonds to steer the ATR. However, maturity is affected at the margin by the switches we make when introducing new bonds (see section 4.1).

5.2 Refinancing risk

Another aspect of term to maturity is the maturity profile of the debt, which shows when the outstanding loans are to be repaid and refinanced. Refinancing risk refers to the risk of inability to replace maturing loans, other than at a significantly higher cost, or in the extreme case not at all. This risk is considered to be higher the greater the volume maturing in the near future is.

The Debt Office takes account of refinancing risks in several ways. One way is to distribute the central government debt over numerous loans with different maturity dates. This means that only a small proportion of the bond stock matures and must be refinanced each year. We also plan borrowing with a long-term approach and distribute issuance volumes over different outstanding bonds in regular auctions on numerous occasions. That way, we spread out refinancing over time and replace parts of old bonds before they mature.

We also strive to keep bond redemptions relatively even in size and to arrange them so that they coincide with large incoming payments.

Normally, a relatively large proportion of the central government debt matures over the coming year. This is because, as mentioned earlier, the Debt Office needs to have relatively extensive short-term borrowing in the plan to manage fluctuations in the budget balance, which poses a heightened refinancing risk. However, the short-term loans do not need to be refinanced if budget balance performance is stronger than expected.

The Government's guidelines do not contain any quantitative measures for steering refinancing risks. However, there is an item setting out that the Debt Office shall take account of refinancing risks. According to this item, we shall report retroactively on how we have taken such risks into consideration.³

5.3 Funding risk

Funding risk is a broader term than refinancing risk and also encompasses the means for managing borrowing requirements arising from budget deficits. Low funding risk is founded on a high level of confidence in the Swedish central government as a borrower thanks to robust central government finances, although the Debt Office's borrowing strategies are also significant.

³ In 2013, the guidelines were supplemented with an item on taking account of refinancing risk in managing the central government debt. The matter was analysed in the Debt Office's proposed guidelines ahead of the Government's decision, and one conclusion was that it would not be appropriate to limit refinancing risk with quantitative steering measures.

To secure central government funding in both the short and long term – and in all types of conditions – the Debt Office uses different debt instruments that are described in section 4. This means that we both seek to ensure a well-functioning domestic government securities market as a base for borrowing and maintain international funding channels.

6. Primary dealers and market support

The Debt Office uses a primary dealer system including certain market-supporting facilities. Both primary dealers and market support are to act as a lubricant and maintain liquidity in the government securities market.

6.1 Reasons for the primary dealer system

There are essentially two ways to organise securities trading. One is order-driven markets – a principle that mainly applies to the stock market. The second is markets with primary dealers (market makers), which dominate the fixed-income market. Most sovereign issuers use primary dealers, including Sweden. However, the systems differ from country to country in terms of factors such as primary dealers' undertakings and remuneration.

Primary dealers can contribute to a well-functioning market by:

- smoothing order flows
- providing bid and ask rates, thus contributing to transparent pricing
- creating competition for the order flow and thus increasing efficiency in the market
- diversifying the investor base.

6.2 Primary dealers' obligations and incentives

The Debt Office has agreements with a number of primary dealers (banks). The agreements regulate the requirements that the primary dealers have committed to fulfil. For example, they shall place bids in the auctions. They shall also act as market makers in the electronic trading system and continually provide indicative bid and offer prices. In the secondary market, they shall facilitate trade.

Primary dealers either place bids in the auctions on behalf of customers, or in order to hold government securities on their own books and then offer them to investors in the secondary market. The role of the primary dealers – as brokers of bids and providers of prices – enables investors to continually buy and sell government securities. This promotes liquidity in the secondary

market, which in turn means that investors can require a lower liquidity premium as compensation for price uncertainty.

If the primary dealers fulfil their obligations, they receive a commission. This consists partly of a fixed component and partly of a variable component linked to market share. Commissions are larger in the primary than in the secondary market.

The Debt Office's primary dealer agreements are published on our website.

6.3 The Debt Office's auctions (primary market)

Only primary dealers may place bids in the Debt Office's auctions. The bids may be on own account or that of a customer. Allotment is performed according to different auction procedures depending on the instrument. We use multiple-price auctions for nominal government bonds but single-price auctions for inflation-linked bonds (from January 2025) and treasury bills (from February 2026).

The Debt Office normally accepts enough bids to ensure that the volume issued in the auction is that which was announced, but we have no obligation to issue the entire announced volume in every situation. We can therefore reject bids if they are deemed unnecessarily expensive for the central government. This may be the case if a bid deviates more than what is considered warranted in relation to market conditions.

The Debt Office has no mechanical rule for when a bid is rejected. In a volatile and uncertain market, we can accept larger deviations from indicative market prices. In the event of a large spread of bids in an otherwise stable market, and of a small bid volume, there may be reason to be more restrictive.

We can always manage an undersubscribed auction by increasing short-term borrowing instead. The volume of the ensuing announced auctions is not adjusted to compensate for an undersubscribed auction.

6.4 The Debt Office's market-supporting activities

Once an auction is completed, trading moves to the secondary market. While the Debt Office does not participate in that market, we offer various facilities and perform certain recurring activities to indirectly support its functioning.

In the market-supporting facilities, the Debt Office lends government securities on a short-term basis to primary dealers through repos. That way, primary dealers can offer to sell government securities to investors without the

risk of encountering delivery problems. The market-supporting repos temporarily increase the volume of government securities, thereby reducing the risk of a shortage arising that could make primary dealers reluctant to display ask prices and thereby hamper market liquidity.

The Debt Office's standing facilities include *repos in exchange for cash* and *repo swaps*. In order to use the facilities, the primary dealers pay a premium in relation to the Riksbank's policy rate. The repo facility is fully demand-driven, while the repo swap facility is volume-limited. The unlimited repo facility becomes a form of unplanned borrowing and the Debt Office therefore makes forecasts of repo volumes and adjusts planned borrowing accordingly.

Another market-supporting activity – besides the standing facilities – is that we usually offer switch auctions when introducing new government bonds (see section 4.1). We then repurchase the former reference bond in favour of building up the new bond. This supports the secondary market by consolidating market liquidity for the reference bonds faster.

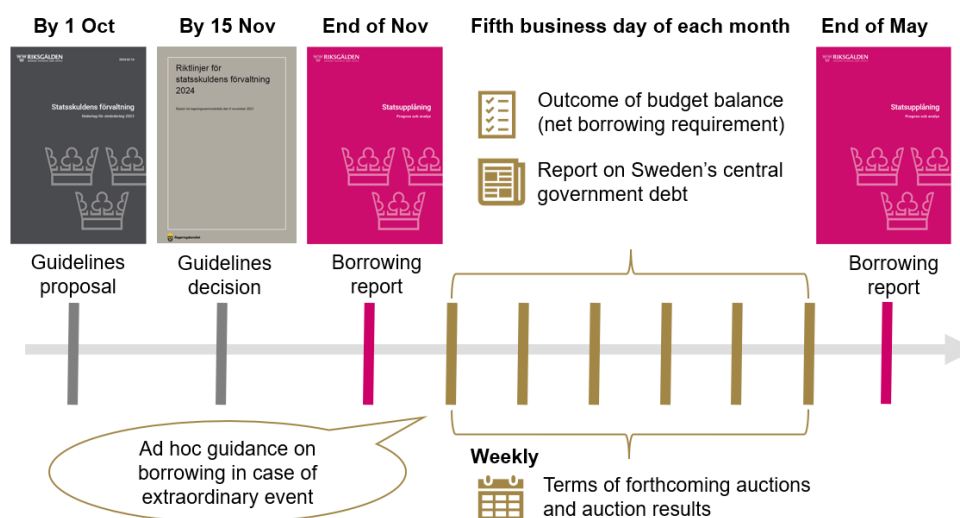
7. Communication and investor relations

Clear communication on borrowing reduces uncertainty about conditions in the government securities market. Lesser uncertainty, in turn, leads to lower risk premiums and thus keeps the central government's long-term borrowing costs down. Communication also plays an important role in attracting investors to the Swedish government securities market.

Illustration 3 gives an overview of how the Debt Office's communication with market participants (primary dealers and investors) is structured.

The core of our communication is information about the central government's borrowing requirement and issuance plans. The main communication channel is *Central Government Borrowing – Forecast and Analysis*, a report published twice a year. By communicating our forecasts and plans consistently, with a forward-looking approach and simultaneously to all participants, we avoid taking the market by surprise. Exactly which bonds we plan to issue at a specific auction is announced one week in advance. The outcome of the budget balance and central government debt is published on a monthly basis. All in all, this provides market participants with good means for assessing future developments in the supply of Swedish government securities.

Illustration 3 Structure of the Debt Office's borrowing-related communication



The Debt Office's communication also includes an ongoing dialogue with primary dealers and meetings with investors. Another important target group is credit rating agencies, with which we are in regular contact ahead of their credit rating updates for the Kingdom of Sweden.

8. Feedback enables development

Towards the end of each year, the Debt Office conducts a survey in which primary dealers and investors evaluate the strategies described in this document and assess how the Debt Office implements them. Feedback from market participants is an important aspect to consider in our ongoing work on developing borrowing strategies. Altered conditions and new analyses of cost and risk aspects may also prompt a review of the strategies.