RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

2 January 2017

Guidelines for central government debt management 2017

The debt management is regulated by the Budget Act (2011:203), Ordinance (2007:1447) containing Instructions for the National Debt Office and the Government's yearly decision on guidelines for central government debt management.

The objective for the management of central government debt

1. Central government debt shall be managed in such a way as to minimise the cost of the debt in the long-term while taking risk in its management into account. The management of the debt shall be conducted within the framework of monetary policy requirements. Budget Act (2011:203).

The task of the Debt Office and the purpose of borrowing

2. The task of the Debt Office is to raise and manage loans for central government in accordance with the Budget Act (2011:203). Ordinance (2007:1447) containing Instructions for the National Debt Office.

3. Under the Budget Act (2011:203) the Debt Office may raise loans for central government in order to:

    1. finance current deficits in the central government budget and other expenditure based on decisions of the Riksdag (the Swedish Parliament);
    2. provide credits and perform guarantees decided by the Riksdag;
    3. amortise, redeem and buy back central government loans;
    4. meet the need for central government loans at different maturities in consultation with the Riksbank; and
    5. satisfy the Riksbank's need for foreign currency reserves.

The guidelines process

4. The Debt Office shall submit proposed guidelines for central government debt management to the Government no later than 1 October each year. Ordinance (2007:1447) containing Instructions for the National Debt Office.

5. The Government shall give the Riksbank the opportunity to comment on the Debt Office's proposed guidelines. Budget Act (2011:203).

6. The Government shall adopt guidelines for the Debt Office's management of the central government debt no later than 15 November each year. Budget Act (2011:203).

7. The Debt Office shall submit information for the evaluation of the management of central government debt to the Government no later than 22 February each year. Ordinance (2007:1447) containing Instructions for the National Debt Office.

8. The Government shall evaluate the management of the central government debt every other year. The evaluation shall be presented to the Riksdag no later than 25 April. Budget Act (2011:203).

9. The Debt Office shall establish principles for the implementation of the guidelines for central government debt management adopted by the Government. Ordinance (2007:1447) containing Instructions for the National Debt Office.

10. The Debt Office shall establish internal guidelines based on the Government's guidelines. The decisions shall concern the use of the position mandate, the foreign currency distribution in the foreign currency debt and principles for market and debt maintenance.

Composition of central government debt – debt shares

11. The share of inflation-linked krona debt in the central government debt is to be 20 per cent in the long term.

    The shares of the debt types in the central government debt are to be calculated as nominal amounts at the current exchange rate including accrued compensation for inflation.

12. The foreign currency exposure in the central government debt is to decrease. The decrease is to be not more than SEK 30 billion per year.

    The exposure is to be calculated in a way that excludes changes in the SEK exchange rate.

13. The Debt Office is to set a benchmark for the distribution of the foreign currency debt across different currencies.

14. In addition to inflation-linked krona debt and foreign currency debt, central government debt is to be composed of nominal krona debt.

Maturity of the central government debt

15. The maturity of the nominal krona debt for instruments with maturities of up to twelve years is to be between 2.9 and 3.9 years.

16. For nominal krona instruments with maturities of over twelve years, the long-term benchmark for the outstanding volume is to be SEK 70 billion.

17. The maturity of the inflation-linked krona debt is to be between 6 and 9 years.

18. The maturity of the foreign currency debt is to be between 0 and 1 year.

19. The maturity of the types of debt may deviate temporarily from the maturities given in points 15, 17 and 18.

20. Maturity is to be measured as duration.

Cost and risk

21. The trade-off between expected cost and risk is primarily to be made through the choice of the composition and maturity of the central government debt.

22. The main cost measure is to be the average issue yield.

23. The main risk measure is to be the average issue yield risk.

24. The Debt Office is to take account of refinancing risks in the management of the central government debt.

25. Borrowing shall be conducted in such a way as to ensure a broad investor base and diversification in a range of funding currencies in order to maintain good borrowing preparedness.

26. Positions are not to be included in the calculation of debt shares and maturities.

27. When taking positions, market values are to be used as the measure of the costs and risks in the management.

Market and debt maintenance

28. The Debt Office is to contribute, through market and debt maintenance, to the efficient functioning of the government securities market in order to achieve the long-term cost minimisation objective while taking account of risk.

29. The Debt Office is to adopt principles for market and debt maintenance.

Position-taking

30. 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 derivatives and that are potentially a borrowing currency in the context of debt management.

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

    The Debt Office is to decide how much of this scope may be used at most in its ongoing management.

32. Positions in the krona exchange rate may not exceed a maximum of SEK 7.5 billion. When the positions are built up or wound down, this is to be done gradually and announced in advance.

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

Borrowing in the retail market

33. The Debt Office is to contribute through retail market borrowing to reducing the costs of central government debt compared with equivalent borrowing in the institutional market in the long term.

Borrowing to meet the need for central government loans

34. The possibility of raising loans to meet the need for central government loans under Chapter 5, Section 1 of the Budget Act (2011:203) may only be used if required on account of threats 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.

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

Management of funds etc.

36. The agency shall place its funds, to the extent that they are not needed for 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. Deposits may be made

abroad and in foreign currency. Ordinance (2007:1447) containing Instructions for the National Debt Office.

37. The Debt Office shall cover the deficits that occur in the Government central account. Ordinance (2007:1447) containing Instructions for the National Debt Office.

38. The management of exchanges between Swedish and foreign currency (currency exchanges) shall be predictable and transparent. Ordinance (2007:1447) containing Instructions for the National Debt Office.

Consultation and collaboration

39. The Debt Office shall consult with the Riksbank on matters concerning the parts of its borrowing operations that may be assumed to be of major importance for monetary policy. Ordinance (2007:1447) containing Instructions for the National Debt Office.

40. The Debt Office shall collaborate with the National Institute of Economic Research and the National Financial Management Authority on matters concerning the agency's forecasts of the central government borrowing requirement. Ordinance (2007:1447) containing Instructions for the National Debt Office.

41. The Debt Office should obtain the Riksbank's views on how to invest the funds borrowed to meet the need for central government loans under the Act (1988:1387) on Central Government Borrowing and Debt Management.

Evaluation

42. Evaluation of the management of the central government debt is to be carried out in qualitative terms in the 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.

43. The evaluation of the operational management should include borrowing and the management of the different types of debt, market and debt maintenance measures and management of currency exchanges.

44. The realised cost difference between inflation-linked and nominal borrowing is to be reported for inflation-linked borrowing.

45. The cost saving compared with alternative borrowing is to be reported for retail market borrowing.

46. Positions within a position mandate given are to be recorded continuously in income, and evaluated in terms of market values.