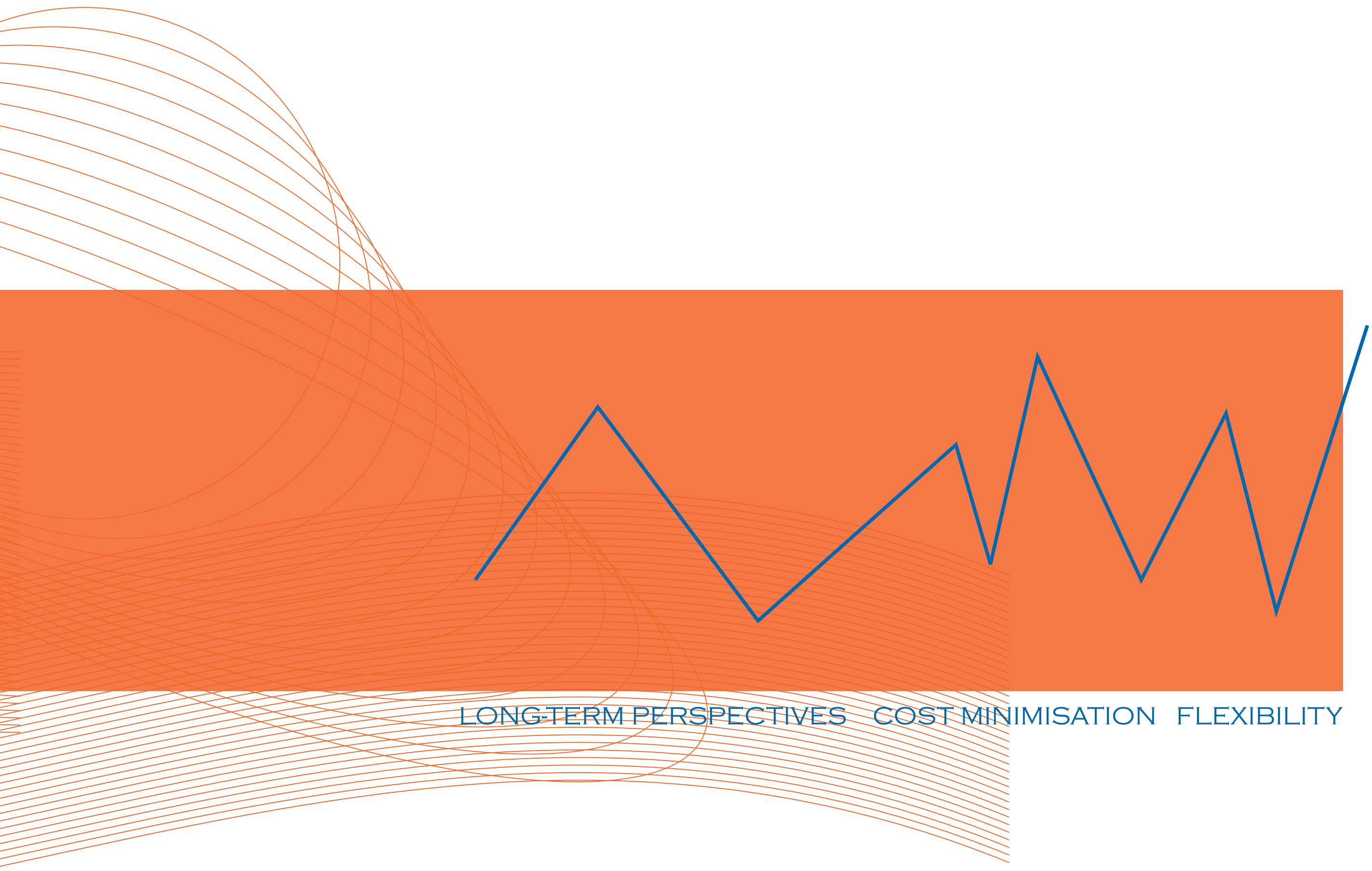
GUIDELINES FOR CENTRAL GOVERNMENT DEBT MANAGEMENT 2011

2011

Decision taken at the Cabinet meeting
November 11 2010



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Contents

Summary

The central government debt policy stance remains firm

The Government's debt policy stance remains firm under the decision on the guidelines for 2011–2013. The debt shares will be kept the same, as will the other target values.

The composition of the central government debt is to be steered towards:

- Foreign currency debt: 15 per cent
- Inflation-linked debt: 25 per cent
- Nominal krona debt: 60 per cent

The maturity of the three types of debt is to be steered towards:

- Foreign currency debt: interest rate refixing period of 0.125 years
- Inflation-linked debt: interest rate refixing period of 8–10 years
- Nominal krona debt:
  - instruments with a maturity of up to twelve years: interest rate refixing period of 3.1 years
  - instruments with a maturity of over twelve years: maximum volume SEK 65 billion

Changes in the guidelines

The Government has found reason to make the following changes in the guidelines.

The Government will state the benchmark for the maturity as an interval instead of a fixed value, making control of the maturity of the inflation-linked debt more flexible. This is due to the costs involved.

The benchmark for the maturity of the nominal krona debt will be shortened marginally from 3.2 to 3.1 years. This is being done for operational reasons to give the Swedish National Debt Office more latitude in the event of unforeseen swings in the central government borrowing requirement.

The mandate for strategic positions in the krona exchange rate was raised from SEK 15 to SEK 50 billion in spring 2009. The higher mandate is considered proportionate to the central government debt and the foreign exchange market and is to remain in effect until further notice. The Debt Office thus continues to have the flexibility assigned it earlier in this respect.

To balance the total risk level compared with the level before the mandate for strategic positions in kronor was raised, the risk mandate for the Debt Office's positions in foreign currency will be lowered from SEK 600 million to SEK 450 million in terms of daily Value-at-Risk at a 95 per cent probability.

The debt is expected to decline

During the period when the guidelines are in force (2011–2013), the debt is expected to decline. Towards the end of 2010, the debt is expected to be just under SEK 1 200 billion and then decline to SEK 1 000–1 100 billion towards the end of 2013. The debt ratio is thus expected to decline from 36 per cent to between 26 and 30 per cent in the same period. When the debt ratio peaked in 1994, it was 78 per cent. Swedish government finances are thus strong in both a historical and an international perspective.

Analysis by the Debt Office awaited

The central government debt's expected development is within an interval that currently does not necessitate any change in direction in the debt's composition and maturity. This is also true after taking into consideration the prevailing uncertainty about developments elsewhere, not least the public finance problems in many countries. Nor does the situation in the loan markets necessitate any change in direction.

The Debt Office has in addition been requested to conduct an analysis, based on the assumption of a considerably higher or lower debt, of how large a share of the central government debt each type of debt should have,

and how the maturity should be managed in each case. Any future decision on a possible change in the central government debt policy stance has to be made in the light of the Debt Office's analysis and economic developments.

Decision on the guidelines and the debt policy objective

The overall objective guiding central government debt management is to minimise its long-term costs while taking the risk into account. The debt policy objective and process are set out in the Act on Central Government Borrowing and Debt Management (1998:1387).

The Government is to make a decision no later than 15 November each year on guidelines for the management of the central government debt. The Debt Office is to submit proposed guidelines no later than 1 October each year. The Government is to allow the Riksbank to comment on the Debt Office's proposed guidelines.

In the guidelines decision, the Government exercises general control over the expected cost and risk of the debt. The Debt Office is responsible for the strategic decisions taken within the framework of the guidelines and for their implementation in the operational management of the debt.

1 Decision on the guidelines for central government debt management in 2011

Summary: The Government's debt policy stance remains firm under the decision on the guidelines for 2011. But the control of the benchmark for the maturity of the inflation-linked debt is being made more flexible and the maturity of the nominal krona debt shortened marginally. The mandate for positions in foreign currency is being lowered.

Shown below are the guidelines for central government debt management, 2011–2013. The decision on the guidelines for 2012 and 2013 should be considered preliminary. The Debt Office is responsible for taking the strategic decisions within the framework of the guidelines and for implementing them in the operational management of the central government debt. In addition to the guidelines in this section, an annex presents the debt management objective, the Debt Office's remit and the purpose of the borrowing, the guidelines process, etc..

1.1 The guidelines process

The Government's decision	Debt Office proposal	Comment
1. The Debt Office is to establish internal guidelines for 2011 based on the Government's guidelines. The decisions are to concern deviation intervals for the maturity benchmarks decided by the Government for each type of debt, the distribution of the risk mandate, the distribution of foreign currency in the foreign currency benchmark and principles for market and debt maintenance.	No corresponding proposal	Corresponds to current guideline

1.2 The composition of central government debt – debt shares

The Government's decision	Debt Office proposal	Comment
1. The share of *inflation-linked krona debt* in the central government debt is to be 25 per cent in the long term.	Is consistent with the Government's decision	Corresponds to current guideline
2. The share of *foreign currency debt* is to be 15 per cent of central government debt.	Is consistent with the Government's decision	Corresponds to current guideline

The control interval around the benchmark should be ±2 percentage points. If the foreign currency share goes outside the control interval, the share of foreign currency debt should be restored to the benchmark or within the interval if the deviation is due to currency movements.		
3. The Debt Office is to set the benchmark for the distribution of the foreign currency debt among different currencies.	Is consistent with the Government's decision	Corresponds to current guideline
4. In addition to inflation-linked krona debt and foreign currency debt, central government debt is to be composed of *nominal krona debt*.	Is consistent with the Government's decision	Corresponds to current guideline

1.3 The maturity of central government debt

The Government's decision	Debt Office proposal	Comment
1. The maturity of the nominal krona debt for maturities of up to twelve years is to be 3.1 years.	Is consistent with the Government's decision	Guideline changed. Government's reason, see Section 3.2
2. For maturities over twelve years, the ceiling for the outstanding volume is to be SEK 65 billion.	Is consistent with the Government's decision	Revised guideline. Government's reason, see Section 3.2
3. The maturity of the inflation-linked krona debt at the end of 2011 is to be between 8 and 10 years. At the end of 2012 and 2013, the maturity is preliminarily to be between 9 and 11 years.	Is consistent with the Government's decision	Guideline changed. Government's reason, see Section 3.2
4. The maturity of the foreign currency debt is to be 0.125 years.	Is consistent with the Government's decision	Revised guideline. Government's reason, see Section 3.2
5. The Debt Office is to decide on a deviation interval for the maturities.	Is consistent with the Government's decision	Revised guideline. Government's reasons, see Section 3.2

1.4 Position-taking

The Government's decision	Debt Office proposal	Comment
1. The Debt Office may take positions in *foreign currency* and *the krona exchange rate*. Positions in foreign currency may only be taken with derivative instruments. Positions may not be taken in the Swedish fixed income market. Position-taking refers to transactions which aim at reducing costs for the central government debt taking into account risk, but which are not justified by underlying loans or investment needs. Positions may be strategic (long term) or operational (current).	Is consistent with the Government's decision	Revised guideline. Government's reasons, see Section 3.3
2. *Positions in foreign currency* are limited to SEK 450 million, measured as daily Value-at-Risk with a 95 per cent probability. The Debt Office is to decide on how much of this room may be used in the operational management.	The Debt Office proposes SEK 600 million for the VaR mandate.	Guideline changed, see Section 3.3
3. *Strategic positions in the krona exchange rate* may not exceed SEK 50 billion and are to be built up and wound down gradually and announced in advance.	Is consistent with the Government's decision	Revised guideline. Government's reasons; see Section 3.3
4. Operational positions in kronor relative to other currencies may in connection with exchanges between kronor and other currencies be taken to a limited extent. The Debt Office is to state the maximum permitted extent.	Is consistent with the Government's decision	Corresponds to current guideline

1.5 Market and debt maintenance

The Government's decision	Debt Office proposal	Comment
1. The Debt Office, through market and debt maintenance, is to contribute to the well-functioning of the government securities market with a view to achieving the long-term cost minimisation objective while taking the risk into account.	Is consistent with the Government's decision	Corresponds to current guideline
2. The Debt Office is to decide on the principles for market and debt maintenance.	Is consistent with the Government's decision	Corresponds to current guideline

1.6 Loans to meet the need of central government loans

The Government's decision	Debt Office proposal	Comment
1. The possibility of raising loans to meet the need for central government lending may only be used if required on account of threats to the functioning of the financial market.	Is consistent with the Government's decision	Corresponds to current guideline
2. The Debt Office may have outstanding loans to a maximum nominal value of SEK 200 billion for this purpose.	Is consistent with the Government's decision	Revised guideline. Government's reason; see Section 3.4
3. Investment of funds raised through loans to meet the need for central government lending should be guided by the principles stated in the Government Support to Credit Institutions Act (2008:814).	Is consistent with the Government's decision	Corresponds to current guideline

1.7 Borrowing in the retail market

The Government's decision	Debt Office proposal	Comment
1. The Debt Office is to contribute to reducing the costs of central government debt by retail market borrowing.	Is consistent with the Government's decision	Corresponds to current guideline

1.8 Guidelines for costs and risks, etc.

The Government's decision	Debt Office proposal	Comment
1. The balance between expected cost and risk is to be made primarily through the choice of the composition and maturity of the debt.	Is consistent with the Government's decision	Corresponds to current guideline
2. The overall *cost measure* is to be the average cut-off yield.	Is consistent with the Government's decision	Corresponds to current guideline
3. The overall *risk measure* is to be the average cut-off yield risk.	Is consistent with the Government's decision	Corresponds to current guideline
4. The shares *of the various types* of central government debt are to be calculated using a measure that takes into account all cash flows in the debt, i.e. also future coupon payments and expected compensation for inflation.	Is consistent with the Government's decision	Corresponds to current guideline
5. *The maturity* is to be measured by an average interest rate refixing period where all the cash flows including expected compensation for inflation are included. Cash flows are not to be discounted.	Is consistent with the Government's decision	Corresponds to current guideline
6. Positions are not to be included in the calculation of debt shares and maturities.	Is consistent with the Government's decision	Corresponds to current guideline
7. When taking positions, market values are to be used as a measure of the costs and risks in managing the debt.	Is consistent with the Government's decision	Corresponds to current guideline

2 Basis for the Government's decision on the guidelines

Summary: The basis for the Government's decision on the guidelines is that the central government debt is to be managed in such a way as to minimise the long-term costs while taking the risk into account.

The decision is also based on the size of the debt, which is estimated to decrease from SEK 1 200 billion at the end of 2010 to SEK 1 000–1 100 billion at the end of 2013. The yield curve is currently steep and at a historically low level.

The basis for the Government's annual decision on the guidelines is the overall objective of central government debt policy, which is that the debt is to be managed in such a way as to minimise the long-term costs while taking the risk into account. Management is to take place within the framework of monetary policy requirements. The debt policy objective, as well as the overall division of responsibilities, is set by the Act on Central Government Borrowing and Debt Management (1988:1387); see the annex.

The basis for deciding the guidelines is also the size of the debt, its expected development and the situation in the lending markets.

2.1 Central government debt

Size and development

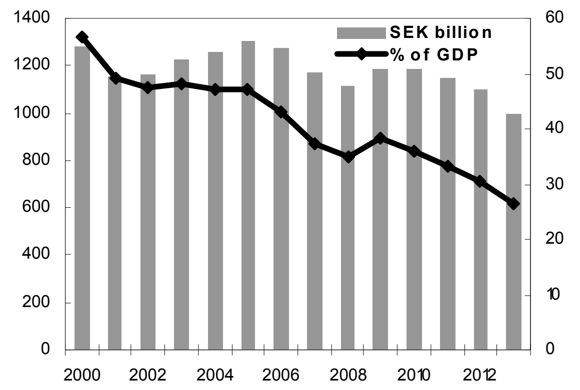
One basis for considering central government debt policy is the size of the debt and its expected development. In principle, robust public finances and declining central government debt increase the scope for risk-taking in exchange for lower expected costs.

The central government debt is the result of central government budgets that historically have had larger deficits than surpluses. A portion of the central government debt is borrowed in foreign currencies and thus exchange rate changes also affect the size of the central government debt.

From 2006–2008, the central government debt declined from SEK 1 309 to 1 119 billion (unconsolidated central government debt). In 2009, the central government debt increased by SEK 70 billion to SEK 1 189 billion at year end. The debt as a percentage of GDP has declined from 47 to 38 per cent between 2005 and 2009. In the 2011 Budget Bill, the central government debt is estimated to decrease by SEK 6 billion in 2010. The decrease in the central government debt despite a budget deficit in 2010 is due to the strengthening of the krona, which reduces the foreign currency debt expressed in krona. In the Budget Bill, the central government debt is expected to total SEK 998 billion at the end of 2013, or 26 per cent of GDP.

On-lending to the Riksbank and Iceland in 2009 and 2010 increases the unconsolidated central government debt by SEK 100 billion. The debt measure (the CCF measure), which is used in the control of the central government debt, is not affected by the on-lending as this is offset by equally large receivables; see below.

Figure 1. Central government debt developments 2000-2013, 2011 Budget Bill



Source: 2011 Budget Bill.

Various measures of the central government debt
The central government debt is measured in different ways, depending on the measure's aim. The unconsolidated central government debt shows the state's future obligations in terms of aggregated nominal final amounts for the Debt Office's outstanding loan instruments. The unconsolidated debt is the official measure of the Swedish central government debt.

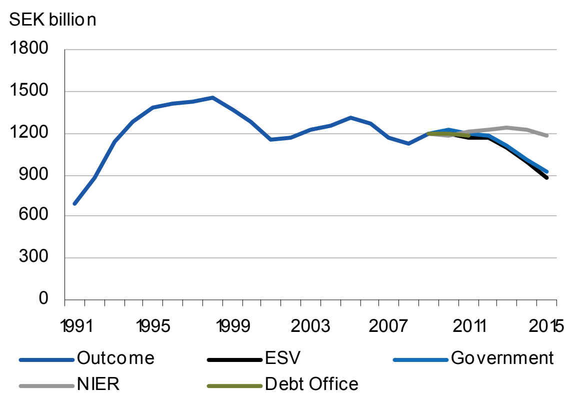
The measure used for control of the central government debt since 2007 has been *the consolidated cash flow* (the CCF measure). This measure measures risk in the central government debt by including the central government's future commitments in terms of cash flows. It also includes coupon payments and inflation compensation in addition to the nominal final amounts. In calculating the CCF, assets that fall within the framework of the Debt Office's debt management are also included. On-lending to the Riksbank and Iceland are current examples of such assets.

The surplus target and the central government debt
The guidelines decisions do not govern the size of the central government debt. Overall control of debt development is instead exercised by the Riksdag and the Government's surplus target for general government net lending. The sale of state-owned companies also has a direct effect on the size of the central government debt.

In the Debt Office proposal for the guidelines, there is an estimate of central government debt development. Assuming that the surplus target of 1 per cent of GDP is met, the calculations indicate a long-term decline in the central government debt corresponding to SEK 15–30 billion a year. According to these estimates, the central government debt would be SEK 1 100 billion by the end of 2014.

Forecasts and development of central government debt
A further way of estimating the development of central government debt is to use temporary forecasts as a basis. The Government, the National Institute of Economic Research (NIER), the Swedish National Financial Management Authority (ESV) and the Debt Office make all the official forecasts of public finances and thus of the development of central government debt. The aims, time horizons and methods differ from one forecast to another. The forecasts[1], with the exception of the NIER forecast, indicate that the debt will decline to around SEK 1 100 billion at the end of 2013. In the NIER forecast, the size of the debt is unchanged up to 2013 (Figure 2).

Figure 2. Development of central government debt, outcome 1991-2009 and forecasts 2010–2015

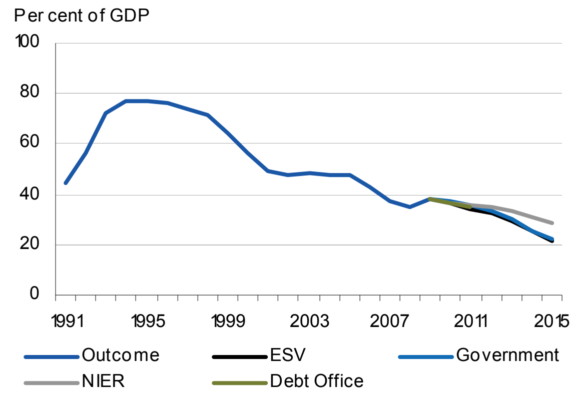


Source: National Debt Office.

In relation to GDP, the debt ratio will fall from 36 per cent at the end of 2010 to around 30 per cent at the end of 2013. The following year, a further fall in the debt ratio is expected (Figure 3).

[1] Forecasts from ESV can be found in Forecast for June 2010. NIER refers to the information reported in The Swedish Economy, June 2010 and the Government's forecast is from the 2010 Spring Fiscal Policy Bill.

Figure 3. The development of central government debt as a percentage of GDP, outcome 1991-2009 and forecasts 2010–2015



Source: National Debt Office.

Conclusions

All in all, the estimates indicate that the debt will decline from just under SEK 1 200 billion at the end of 2010 to SEK 1 000—1 100 billion by the end of 2013. Thus as a share of GDP, the debt will fall from 36 per cent to between 26 and 30 per cent. If this on-lending to the Riksbank were to cease, the central government debt would decrease by a further SEK 100 billion. This does not, however, affect the debt measure that forms the basis for the control of the debt.

There is considerable uncertainty about international developments, not least because of problems in the public finances in many other countries. Heavily indebted countries have to finance their deficits at the same time that many European banks have to refinance their operations.

This implies a risk that it will be more difficult and more costly to borrow and that this may, in turn, cause renewed stress in the financial markets.

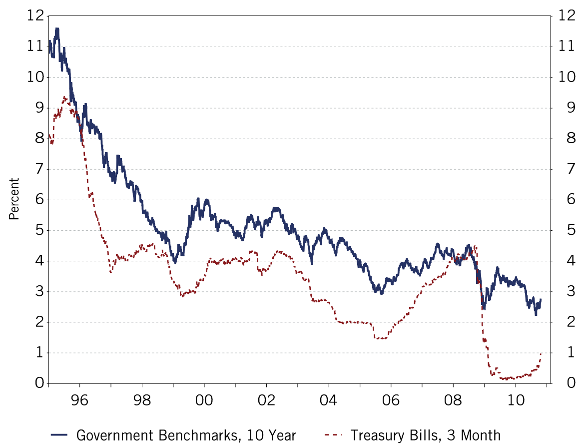
2.2 Loan markets

Another basis for assessing central government debt policy is the situation in the loan markets. One important factor in choosing maturities is the current and the expected slope of the yield curve. The yield curve, which in this context describes the interest rate on treasury bills and government bonds of different maturities, generally has a positive slope. This means that borrowing with shorter maturities involves lower expected costs than borrowing with longer maturities. Borrowing in shorter maturities, however, involves a higher risk since the debt is refinanced more often (the refinancing risk) and there is more variation in interest rate expenditure (interest rate refixing risk). A yield curve with a steeper slope increases the trade-off between cost and risk. The interest rate volatility for different maturities may also be important in controlling the maturity of the debt.

Interest rate levels in 2009 and 2010 have been remarkably low from a historical perspective. The three-month rate has fallen to less than 1 per cent and the rate on ten-year government bonds has been under 3 per cent (Figure 4).

It is difficult to judge what a normal interest rate level is and how the interest rate level will develop. One approach is to look at historical interest rate levels. Comparisons further back in time should, however, be made with caution as both fixed-income markets and the way the economy functions change over time.

Figure 4. Ten-year and three-month government borrowing rate, Sweden



Source: Reuters EcoWin.

Considering that increases and decreases in the interest rate offset each other in the long run, the level of the yield curve is of minor importance in the choice of long-term maturity. The advantage of having a long-term debt when interest rates rise is reduced by the loss that could be said to occur when interest rates fall again. This does not, however, prevent taking the interest rate level into consideration in the design of central government debt policy.

This happened, for example, in spring 2009 when the Government, with the aim of locking in seemingly favourable low interest rates, made it possible for the Debt Office to issue nominal government bonds with long maturities.

Instead, the slope of the yield curve and the ability of the borrower (the central government) to pay the rapidly rising interest costs in the short run are what is crucial in the choice of maturity. The difference between the ten-year rate and the three-month rate provides an idea of the slope of the yield curve (Figure 5). Interest rates for both maturities track each other even though the changes in the three-month rate are substantially larger (Figure 4). There is no clear connection between the level of the yield curve and its slope.

Figure 5. The difference between the ten-year and the three-month government borrowing rate, Sweden

Source: Reuters EcoWin.

On average, the ten-year rate has exceeded the three-month rate by over 1 percentage point. The difference is currently greater.

Conclusions

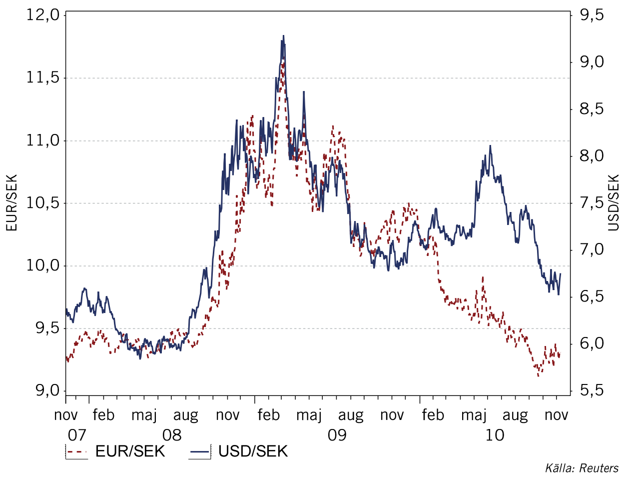
The current steep yield curve would in the short run make it possible to lower government borrowing costs by shortening the debt maturity. A counterargument is the increased interest rate refixing risk that a shortening of the maturity would involve. At the same time, it should also be noted that interest rates on long maturities are historically low. In the decision on the maturity, the conditions for maintaining good liquidity in the instruments that form the core of the borrowing are also considered (see Section 3.2).

2.3 The Swedish krona

The exchange rate for the krona affects the size of the foreign currency debt. The exchange rate also forms the basis for the Government to establish the scope for strategic positions in the krona exchange rate.

In autumn 2008, the Swedish krona weakened substantially as a result of the financial crisis, the economic downturn and the growing uncertainty about developments in the Baltic States. It remained weak throughout spring 2009. Since summer 2009, it has gradually strengthened.

Figure 6. The krona in relation to the euro and the dollar



Source: Reuters EcoWin.

3 Reasons for the Government's decision

3.1 The composition of the debt

The targets for the debt shares are since 2007: *foreign currency debt* 15 per cent, *inflation-linked krona debt* 25 per cent and *nominal krona debt* 60 per cent (residual). The shares are based on an analysis done by the Debt Office in 2004. The debt ratio was then 50 per cent of GDP compared with 38 per cent at the end of 2009. As the debt shares (and the maturity) are related to how the size of the debt develops, the Debt Office has been requested to conduct an analysis, based on a debt that is considerably higher or lower, of how large a share of the central government debt each type of debt should have and how the maturity should be managed in each case.

The Government does not see any strong arguments for changing the current composition of the debt at present, but will await the Debt Office's analysis of the issue.

3.2 The debt maturity

The Government does not see any reason to change its stance on the maturity for the three types of debt. This conclusion is also supported by the actual and expected development of the debt and the situation in the lending markets.

Both the Government's forecasts and the forecasts of other authorities indicate that the debt, both in nominal terms and in terms of GDP, will decline during the forecasting horizon. All else being equal, this indicates that the Government can take higher risks in debt management; that is, it would be possible to shorten the debt maturity.

Furthermore, the current steep slope of the yield curve means that the maturity could be shortened by an expected advantageous exchange of cost vis-à-vis risk. Conversely, it should be noted that current government borrowing rates are at very low levels, which would argue in favour of an extension of the maturity with the aim of locking in the low long rates.

The opposing arguments above do not provide any clear-cut basis for changing the maturity. The Government therefore has chosen to await the analysis by the Debt Office on this issue as well. A possible change in the maturity policy will be based on the outcome of this analysis.

3.3 Some changes in the maturity guidelines

Maturity of the nominal krona debt

Since the 2009 decision on the guidelines, the Government has steered the maturity in the central government debt by setting separate target values for each of the three types of debt.

Since 2010, control of the nominal krona debt has been split up so that borrowing instruments with a maturity shorter than twelve years are guided towards a maturity benchmark and borrowing instruments with a maturity longer than twelve years are limited by a volume ceiling. The control model was designed to make it possible to control both shorter and longer maturities after the Debt Office in spring 2009 borrowed SEK 38 billion via a newly introduced 30-year nominal bond.

For maturities over twelve years, the Government does not see any reason to change the guideline and the ceiling is being kept unchanged at SEK 65 billion. The reason is that there currently is only one nominal krona bond with a maturity longer than twelve years, the 30-year loan. The outstanding volume in the 30-year loan is currently about SEK 40 billion. As there is no need to specify the ceiling for individual years, a ceiling of SEK 65 billion should be in force until further notice.

However, the maturity for the nominal krona debt for maturities up to twelve years will be changed. The maturity is to be 3.1 years, compared with the current 3.2 years. This adjustment is being made for operational reasons and to preserve the latitude given the Debt Office in the event of unforeseen swings in the borrowing requirement.

The background is that the lower borrowing requirement in 2011 has led to reduced borrowing in government bonds. This in turn reduces the planned volume of swaps. Small swap volumes give the Debt Office less room for manoeuvre to parry unexpected and rapid changes in the borrowing. If the borrowing requirement were to increase and the additional borrowing as usual is done in treasury bills, the maturity of the nominal krona debt will be shorter. Small swap volumes limit the Debt Office's possibilities of parrying this. Alternatively, unexpectedly changing government bond issue volumes should if possible be avoided as it may create uncertainty about how large the offer of long – and in investors' eyes, more risky – government securities will be. Against this background, the Government chooses to shorten the maturity in the nominal krona debt somewhat.

The maturity of the inflation-linked krona debt

The maturity of the inflation-linked krona debt at the end of 2011 should be between 8 and 10 years. At the end of 2012 and 2013, the maturity should preliminarily be between 9 and 11 years respectively.

The reason for changing the control for the maturity of the inflation-linked krona debt is to increase borrowing flexibility. The previous maturity benchmark (8.7 years) lies within the new control interval (8–10 years).

The maturity for the inflation-linked krona debt is difficult to control. The inflation-linked debt's share (25 per cent) has been reached and planned issue volumes are small in relation to the outstanding stock of inflation-linked bonds. It is not possible to control the maturity with derivatives as the market for inflation derivatives is relatively undeveloped. In practice, the maturity can only be controlled by new issues, exchanges and buybacks. Cost reasons argue for greater flexibility as this would make it possible to give more consideration to the market situation in conjunction with new issues. The greater flexibility also makes it possible to avoid buybacks when the market situation so indicates.

The change is in line with the views expressed by the external reviewer in the report examining central government debt policy, Utvärdering av statens upplåning och skuldförvaltning 2005–2009 (Government Communication 2009/10:104: Evaluation of government borrowing and debt management 2005–2009), p.76. The Committee on Finance did not take any specific position on the maturity for the inflation-linked debt or its control (Committee Report 2009/10:FiU37).

Maturity of the foreign currency debt

The maturity of the foreign currency debt remains unchanged at 0.125 years. There is no reason to change the maturity for individual years and therefore the maturity benchmark should remain in force until further notice.

Deviation interval for the maturities

In the guidelines, there is a change in the wording concerning the Debt Office's deviation interval. The previous wording was: "the Debt Office is to decide on a deviation interval for *the benchmarks* for the maturities". The new wording should be "The Debt Office is to decide on a deviation interval for the maturities".

3.4 Position-taking

Position-taking refers to transactions aimed at reducing the cost of the debt while taking risk into account but which are not justified by underlying loan or investment needs. The positions may be strategic (long term) or operational (current).

Strategic positions in the krona exchange rate

The mandate for strategic positions in the krona was raised from SEK 15 to SEK 50 billion in May 2009. In the guidelines for 2011, the mandate is unchanged at SEK 50 billion. The size of the krona mandate gives the Debt Office sufficient flexibility to enable it to take positions that can be considered reasonable, bearing in mind the size of the central government debt and the foreign exchange market. The Riksbank has not expressed any opinion on the size of the mandate.

Positions in the exchange rate for the krona are not covered by the risk mandate that sets limits on foreign currency positions. This is because krona positions should be built up and wound down gradually over several months. Unlike foreign currency positions, krona positions do not have to be taken with derivative instruments.

Positions within the framework for the Value-at-Risk mandate

It has been possible for the Debt Office to take positions in foreign currency since 1992. Since 2007, the Government has established the total Value-at-Risk mandate in foreign currencies. The Board of the Debt Office decides how large a part of this scope for risk is to be used in the active (operational) management and for strategic positions in foreign currency.

Given that the mandate for positions in the krona exchange rate is unchanged, but higher than before the financial crisis, the risk mandate for positions in foreign currency should be adjusted downwards from SEK 600 to SEK 450 million in terms of daily Value-at-Risk with a 95 per cent probability. In this way, the total risk level that the Debt Office is allocated within the framework of the guidelines for position-taking is partly balanced.

The active management has resulted in cost savings corresponding to just over SEK 12 billion in the period 1992–2009. Strategic dollar positions up to March 2009 have resulted in cost savings corresponding to SEK 7 billion.

3.5 Maximum volume to meet the need for government securities

The need of loans in the event of threats to financial stability is difficult to predict for the time horizon covered by the guidelines. Previously, the maximum volume has been decided for each year. The revision means that the current maximum outstanding value of SEK 200 billion will apply until further notice.

4 Guidelines for evaluating debt management

Since the debt policy objective is to be long term, the result will be evaluated over rolling five-year periods. The evaluation for 2007–2011 will be submitted to the Riksdag no later than 25 April 2012. The Debt Office is to submit the documentation on which the evaluation is to be based to the Government no later than 22 February each year.

The Government's decision	Debt Office proposal	Comment
1. Evaluation of debt management is to be made 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.	Is consistent with the Government's decision	Reformulated guideline, see below.
2. Evaluation of the operational management should, inter alia, cover borrowing and management of the different types of debt and market and debt maintenance measures as well as management of currency exchanges.	Is consistent with the Government's decision	Corresponds to current guideline
3. The realised cost difference between inflation-linked and nominal borrowing should be reported for inflation-linked borrowing.	Is consistent with the Government's decision	Corresponds to current guideline
4. The cost saving compared with alternative borrowing should be reported for retail market borrowing.	Is consistent with the Government's decision	Corresponds to current guideline
5. Strategic and operational interest rate and foreign currency positions within the given risk mandate are to be taken up on an ongoing basis as income, and evaluated in terms of market values.	Is consistent with the Government's decision	Corresponds to current guideline

Former wording point 1: "Evaluation of *board decisions* is to be made in qualitative terms in the light of the knowledge available at the time of the decision. Where possible, the evaluation is also to contain quantitative measures."

Annex: Overview of current provisions that, together with the Government's guidelines, govern government borrowing and debt management

Goals of central government debt management

Regulations	Statutes
The central government debt is to be managed in such a way as to minimise the long-term costs while taking risk into account. Management is to take place within the framework of monetary policy requirements.	5 § Act on Central Government Borrowing and Debt Management (1988:1387)

Debt Office's remit and the purpose of borrowing

Regulations	Statutes
The Debt Office's remit is to raise and manage loans for the central government in accordance with the Act on Central Government Borrowing and Debt Management (1988:1387).	2 § Ordinance containing Instructions for the National Debt Office (2007:1447)
Following special authorisation, which is given for one fiscal year at a time, the Government or, after authorisation by the Government, the National Debt Office, may raise loans for the central government to: • finance current deficits in the central government budget and other expenditure pursuant to decisions made by the Riksdag, • provide such credit and perform such guarantees as decided by the Riksdag, • amortise, redeem and buy back central government loans, • in consultation with the Riksbank, satisfy the requirement for central government loans with different maturities, and • satisfy the Riksbank's requirements for foreign currency reserves.	1 § Act on Central Government Borrowing and Debt Management (1988:1387)

The guidelines process

Regulations	Statutes
The Debt Office is to submit proposed guidelines for central government debt management to the Government by 1 October each year.	3 § Ordinance containing Instructions for the National Debt Office (2007:1447)
The Government is to allow the Riksbank to comment on the Debt Office's proposed guidelines.	6 § Act on Central Government Borrowing and Debt Management (1988:1387)
The Government is to make a decision by 15 November each year on guidelines for the Debt Office's management of the central government debt.	6 § Act on Central Government Borrowing and Debt Management (1988:1387)

The Debt Office is to submit the documentation on which the evaluation of central government debt management is to be based to the Government no later than 22 February each year.	3 § Ordinance containing Instructions for the National Debt Office (2007:1447)
In a Government Communication, the Government, beginning in 2008 and every second year thereafter, is to evaluate central government debt management. The Government Communication is to be presented to the Riksdag no later than 25 April.	7 § Act on Central Government Borrowing and Debt Management (1988:1387)
The Debt Office is to establish principles for the implementation of the guidelines for central government debt management decided by the Government.	15 § Ordinance containing Instructions for the National Debt Office (2007:1447)

Management of funds, etc.

Regulations	Statutes
The Debt Office is to deposit its funds, to the extent that they are not needed for disbursements, 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.	5 § Ordinance containing Instructions for the National Debt Office (2007:1447)
The Debt Office is to cover the deficits that occur in the government central account.	7 § Ordinance containing Instructions for the National Debt Office (2007:1447)
Management of exchanges between Swedish and foreign currency (currency exchanges) is to be predictable and transparent.	6 § Ordinance containing Instructions for the National Debt Office (2007:1447)

Consultation and collaboration

Regulations	Statutes
The Debt Office is to consult the Riksbank on matters concerning the components of borrowing that may be assumed to be of major importance for monetary policy.	12 § Ordinance containing Instructions for the National Debt Office (2007:1447)
The Debt Office is to consult the National Institute of Economic Research and the National Financial Management Authority on matters concerning Debt Office forecasts of the central government borrowing requirement.	11 § Ordinance containing Instructions for the National Debt Office (2007:1447)

The Debt Office should obtain the Riksbank's views on how the funds borrowed to meet the need for central government lending are to be invested in accordance with the Act on Central Government Borrowing and Debt Management (1998:1387).	Corresponds to current guideline (introduced in the guidelines decision for 2009).

REGERINGSKANSLIET

Ministry of Finance
Sweden

Telephone +46 8 405 10 00, www.sweden.gov.se/finance