GUIDELINES FOR CENTRAL GOVERNMENT DEBT MANAGEMENT 2013

2013

Decision taken at the Cabinet meeting
November 15 2012

LONG-TERM PERSPECTIVES COST MINIMISATION FLEXIBILITY

REGERINGSKANSLIET

Contents

Summary........ 2

1 Decision on guidelines for central government debt management in 2013 5
- 1.1 The objective of central government debt management 6
- 1.2 The Debt Office's remit and the purpose of borrowing 6
- 1.3 The guidelines process 6
- 1.4 Composition of central government debt – debt shares 7
- 1.5 Debt maturity 7
- 1.6 Cost and risk 8
- 1.7 Market and debt maintenance 8
- 1.8 Position-taking 9
- 1.9 Borrowing in the retail market 10
- 1.10 Borrowing to meet the need for central government loans 10
- 1.11 Management of funds, etc. 11
- 1.12 Consultation and collaboration 11
- 1.13 Evaluation 11

2 Basis for the Government's guidelines 12
- 2.1 Central government debt 12
- 2.2 Loan markets 15
- 2.3 The Swedish krona 16
- 2.4 The Riksbank's comments on the Debt Office proposal 17

3 Reasons for the Government's decision 18
- 3.1 Debt cost and risk 18
- 3.2 Composition of the debt 19
- 3.3 Debt maturity 21
- 3.4 Steering of refinancing risks 21
- 3.5 Position-taking 22
- 3.6 Borrowing to meet the need for central government loans 24

Summary

Direction of debt policy unchanged
The guidelines decision for 2013–2016 leaves the direction of central government debt policy unchanged. The debt shares and interest rate fixing periods for central government debt remain unchanged. Last year's guidelines decision signified an increased focus on robust management of the debt. This year the guidelines are being supplemented to state explicitly that the Debt Office is to take account of refinancing risks in the management of the debt. In addition, the long-term benchmark for the outstanding volume of instruments in nominal krona debt with maturities of more than twelve years is raised from SEK 60 to 70 billion.

The composition of the debt is to be steered towards:

- Foreign currency debt: 15 per cent
- Inflation-linked krona debt: 25 per cent
- Nominal krona debt is to account for the remainder (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 krona debt: interest rate refixing period of 7–10 years.
- Nominal krona debt:
  - instruments with a maturity of up to 12 years: interest rate refixing period of 2.7-3.2 years
  - instruments with a maturity of more than 12 years: benchmark for the outstanding volume of SEK 70 billion.

Mandate for positions in the Swedish krona exchange rate
The Debt Office’s mandate for positions in the Swedish krona exchange rate is reduced from SEK 15 billion to SEK 7.5 billion. This decision means that the risk of losses in position-taking operations is limited.

Refinancing risks in debt management
The maturity of the debt is mainly steered in terms of interest rate refixing periods. The outstanding volume of instruments in nominal krona debt with a maturity of more than twelve years is steered by a benchmark.

A large part of the nominal krona bonds are converted to short maturities by using swaps. This limits the refinancing risk while benefiting from the cost advantages of shorter interest rate refixing periods. The average maturity of the entire debt is about 6 years, while the average interest rate fixing period is about 4 years. The bulk of the borrowing is done in government bonds that are spread over several loans with different maturity dates. This means that only a small part of the outstanding debt stock matures and must be refinanced each year. The refinancing risk is also limited by continuously spreading borrowing across small, regularly held auctions. As a result, maturing bonds are financed in advance to a great extent. This procedure is less common in other European countries. In recent years the stock of government securities maturing within two years has been halved, which also limits the refinancing risk. Its foreign currency borrowing gives the Debt Office an established channel to international capital markets. This loan channel provides the possibility of borrowing large

volumes in a short period of time, which limits both the financing and the refinancing risk.

Borrowing in the longest maturity segments

In recent years the refinancing risk has also decreased as a result of increased long-term borrowing. When the borrowing requirement rose sharply in 2009, the guidelines were amended so as to finance a large part of the increase with 30-year bonds. The guidelines for 2012 introduced a benchmark to increase the outstanding volume of nominal krona bonds with maturities of more than twelve years. This benchmark was set at SEK 60 billion, replacing the previous ceiling of SEK 65 billion. The guidelines decision for 2013 raises this long-term benchmark to SEK 70 billion.

At present the corresponding volume is SEK 53 billion. The rate of increase in relation to the benchmark must be weighed against the cost and risk of borrowing at other maturities and the development of demand for long bonds. The Debt Office is also to take fiscal developments into account so that a rise in the borrowing requirement may lead to the benchmark being reached earlier than otherwise.

Great interest in Swedish government securities

During the financial unrest of recent years the Debt Office has not had any borrowing problems. There has been and is great interest in Swedish government securities. As a result of Sweden's strong government finances, Swedish government securities have increasingly stood out as a secure investment as concerns grow about fiscal developments in many other countries.

Analysis of debt shares and maturities

As instructed by the Government, the Debt Office has analysed what shares the different types of debt should have in the case of much higher and much lower central government debt and how maturities should be managed in each of these cases. A qualitative analysis of this issue was presented in the Debt Office's proposed guidelines for 2012. The Debt Office's proposed guidelines for 2013 present a renewed analysis of the share of foreign currency debt in particular. Before the present foreign currency debt share of 15 per cent is reconsidered, a closer analysis should be made of the cost and financing aspects. The Debt Office is to present such an analysis in its proposed guidelines for 2014. A further reason for waiting at the moment before making a change in the guidelines for foreign currency debt is the ongoing Inquiry on the Riksbank's (Swedish central bank's) financial independence and balance sheet – review after the lessons of the financial crisis (Finance 2011:12). The results of this Inquiry may affect the currency exposure of the Debt Office and the agency's role in financing the foreign currency reserve.

Size and cost of the debt

At the start of 2012 the unconsolidated central government debt was SEK 1158 billion. The Budget Bill for 2013 estimated that the unconsolidated central government debt will be SEK 928 billion at the end of 2016.

Sharply falling market interest rates along with Sweden's strong government finances have considerably reduced the cost of the debt. For 2011 interest costs for the central government debt were SEK 26 billion. The Budget Bill for 2013 puts the interest costs at between SEK 24 and 28 billion per year in the period 2012–2016.

Trade-off between cost and risk

A smaller central government debt results in lower costs and therefore smaller variations in costs (in krona terms). In principle a low debt means that the scope for risk-taking increases in return for lower expected costs. Sweden's central government finances are viewed as strong from both a historical and an international perspective. However, in the light of the uncertainty about the development of the central government debt crisis in certain European countries the Government does not see any reason for greater risk-taking in the management of the central government debt.

Guidelines decision and debt policy objective

The main objective guiding central government debt management is to minimise the long-term cost of the debt while taking risk in its management into account. The objective of and process for debt policy are set out in the Swedish Budget Act (2011:203).

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

The Government has to allow the Riksbank (Swedish central bank) to comment on the Debt Office's proposed guidelines.

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

1 Decision on guidelines for central government debt management in 2013

Summary: The guidelines decision for 2013–2016 leaves the direction of central government debt policy unchanged. The debt shares and maturities for central government debt remain unchanged. The foreign currency debt will be steered towards 15 per cent and the inflation-linked krona debt towards 25 per cent. The remaining share (60 per cent) will consist of nominal krona debt. The maturity of central government debt is steered in terms of interest rate refixing periods. The interest rate refixing period will be 0.125 years for foreign currency debt and 7–10 years for inflation-linked krona debt. The steering of the nominal krona debt is divided into instruments with outstanding maturities of less than and more than 12 years. For instruments with outstanding maturities of up to twelve years the interest rate fixing period will be 2.7–3.2 years. For instruments with outstanding maturities of more than 12 years, the long-term benchmark for the outstanding volume is increased from SEK 60 to 70 billion. The guidelines clarify that the Debt Office is to take account of the refinancing risk in the management the debt. The Debt Office's mandate for positions in the krona exchange rate is reduced from SEK 15 billion to SEK 7.5 billion.

The guidelines for central government debt management for 2013–2016 are set out below. The decision for 2014–2016 is to be regarded as preliminary. The guideline period is extended from three to four years. As of 2013 the guidelines cover the same period as the Budget Bill. In the guidelines the Government establishes the overall framework for the management of the central government debt. The Debt Office is responsible for taking strategic decisions within the framework of the guidelines and for the implementation of these decisions in the operational management of the debt. Points 1–10 set out the objective of central government debt management, the remit of the Debt Office and the purpose of the lending, as well as the guidelines process. Points 37–42 set out the rules concerning the management of funds, consultation and collaboration. Provisions concerning the management of the central government debt are set out in the Budget Act (2011:203) and the Ordinance (2007:1447) containing Instructions for the National Debt Office.

The Government intends to appoint an inquiry whose remit will include an analysis of the function of the government securities market and its significance for financial stability. The inquiry may result in proposals for amendments to the above-mentioned provisions.

1.1 The objective of central government debt management

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

1.2 The Debt Office's remit and the purpose of borrowing

2. The Debt Office's remit is to raise and manage loans for the central government in accordance with the Budget Act. *Ordinance (2007:1447) containing Instructions for the National Debt Office*.

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

1.3 The guidelines process

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

5. The Government has to allow the Riksbank to comment on the Debt Office's proposed guidelines. *Budget Act.*

6. The Government has to adopt guidelines for the Debt Office's management of the central government debt by 15 November each year. *Budget Act.*

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

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

9. The Debt Office has to establish principles for the implementation of the guidelines for central government debt management decided by the Government. *Ordinance containing Instructions for the National Debt Office.*

10. The Debt Office has to establish internal guidelines based on the Government's guidelines. The decisions have to concern deviation intervals for the maturity benchmarks decided by the Government for each type of debt, the distribution of the risk mandate, the foreign currency distribution in the foreign currency benchmark and principles for market and debt maintenance.

1.4 Composition of central government debt – debt shares

The Government's decision	Debt Office proposal	Comment
11. The share of *inflation-linked krona debt* in the central government debt is to be 25 per cent in the long term.	In line with government decision.	Corresponds to current guideline.
12. The share of *foreign currency debt* is to be 15 per cent of central government debt. The control interval around the benchmark is to be ±2 percentage points If the foreign currency share moves outside the control interval, the share of foreign currency debt is to be moved back towards the benchmark or to within the interval if the deviation is due to currency movements.	In line with government decision.	Corresponds to current guideline.
13. The Debt Office is to set a benchmark for the distribution of the foreign currency debt among different currencies.	In line with government decision.	Corresponds to current guideline.
14. In addition to inflation-linked krona debt and foreign currency debt, central government debt is to be composed of *nominal krona debt*.	In line with government decision.	Corresponds to current guideline.

1.5 Debt maturity

The Government's decision	Debt Office proposal	Comment
15. The maturity of the nominal krona debt for instruments with outstanding maturities of up to twelve years is to be 2.7–3.2 years.	In line with government decision.	Reformulated guideline, see section 3.3.
16. For nominal krona instruments with outstanding maturities over twelve years, the benchmark for the outstanding volume is to be SEK 70 billion.	The Debt Office proposes a benchmark of SEK 60 billion.	Amended guideline, see section 3.3.
17. The maturity of the inflation-linked krona debt is to be between 7 and 10 years.	In line with government decision.	Corresponds to current guideline.
18. The maturity of the foreign currency debt is to be 0.125 years.	In line with government decision.	Corresponds to current guideline.
19. The maturity of the types of debt may deviate temporarily from the maturities given in points 15, 17 and 18.	In line with government decision.	Amended guideline, see section 3.3.

1.6 Cost and risk

The Government's decision	Debt Office proposal	Comment
20. The trade-off between expected cost and risk is to primarily be made through the choice of the composition and maturity of the debt.	In line with government decision.	Corresponds to current guideline.
21. The main cost measure is to be the average cut-off yield.	In line with government decision.	Corresponds to current guideline.
22. The main risk measure is to be the average cut-off yield risk.	In line with government decision.	Corresponds to current guideline.
23. The Debt Office is to take account of refinancing risks in the management of central government debt.	In line with government decision.	New guideline, see section 3.4.
24. The shares of the various types of central government debt are to be calculated using a measure that takes account of all cash flows in the debt, i.e. including future coupon payments and expected compensation for inflation.	In line with government decision.	Corresponds to current guideline.
25. The maturity is to be measured by the average interest rate refixing period that includes all the cash flows including expected compensation for inflation. Cash flows are not to be discounted.	In line with government decision.	Corresponds to current guideline.
26. Positions taken are not to be included in the calculation of debt shares and maturities.	In line with government decision.	Corresponds to current guideline.
27. When taking positions, market values are to be used as the measure of the costs and risks in managing the debt.	In line with government decision.	Corresponds to current guideline.

1.7 Market and debt maintenance

The Government's decision	Debt Office proposal	Comment
28. The Debt Office is to contribute, through market and debt maintenance, to the effective functioning of the government securities market in order to achieve the long-term cost minimisation objective while taking account of risk.	In line with government decision.	Corresponds to current guideline.

29. The Debt Office is to adopt principles for market and debt maintenance.	In line with government decision.	Corresponds to current guideline.

1.8 Position-taking

The Government's decision	Debt Office proposal	Comment
30. The Debt Office may take positions in *foreign currency* and the *krona exchange rate*.	In line with government decision.	Corresponds to current guideline.
Positions in foreign currency may only be taken using derivative instruments.	In line with government decision.	Corresponds to current guideline.
Positions may not be taken in the Swedish fixed income market.	In line with government decision.	Corresponds to current guideline.
Positions refer to transactions that are intended to reduce the costs for the debt taking account of risk and that are not motivated by underlying borrowing or investment requirements.	In line with government decision.	Corresponds to current guideline.
Positions may be strategic (long term) or operational (current).	In line with government decision.	Corresponds to current guideline.
Positions may only be taken on 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.	In line with government decision.	Amended guideline, see section 3.5.
31. Positions in *foreign currency* are limited to SEK 450 million, measured as daily Value-at-Risk with a 95 per cent probability.	In line with government decision.	Corresponds to current guideline.
The Debt Office is to decide how much of this scope may be used at most in its operational management.		
32. *Strategic positions* in the krona exchange rate may not exceed a maximum of SEK 7.5 billion. When the positions are built up and wound down, this is to be done gradually and announced in advance.	The Debt Office proposes limiting its mandate to SEK 15 billion.	Amended guideline, see section 3.5.
33. Limited operational positions in kronor relative to other currencies may be taken in connection with exchanges between the	In line with government decision.	Corresponds to current guideline.

krona and other currencies. The Debt Office is to state the maximum permitted extent.		

1.9 Borrowing in the retail market

The Government's decision	Debt Office proposal	Comment
34. Through retail market borrowing the Debt Office is to contribute to reducing the costs of the central government debt compared with equivalent borrowing in the institutional market.	In line with government decision.	Corresponds to current guideline.

1.10 Borrowing to meet the need for central government loans

The Government's decision	Debt Office proposal	Comment
35. The possibility of raising loans to meet the need for central government loans under Chapter 5, Section 1 of the Budget Act may only be used if required on account of threats to the functioning of the financial market.	In line with government decision.	Supplemented guideline, see section 3.6.
The Debt Office may have outstanding loans with a maximum nominal value of SEK 200 billion for this purpose.	In line with government decision.	Corresponds to current guideline.
36. Investment of funds raised through loans taken to meet the need for central government loans should be guided by the principles set out in the Government Support to Credit Institutions Act (2008:814).	In line with government decision.	Corresponds to current guideline.

1.11 Management of funds, etc.

37. 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. *Ordinance containing Instructions for the National Debt Office.*

38. The Debt Office is to cover the deficits that occur in the Government central account. *Ordinance containing Instructions for the National Debt Office.*

39. The management of exchanges between Swedish and foreign currency (currency exchanges) is to be predictable and transparent. *Ordinance containing Instructions for the National Debt Office.*

1.12 Consultation and collaboration

40. The Debt Office is to consult the Riksbank on matters concerning the components of its borrowing operations that may be assumed to be of major importance for monetary policy. *Ordinance containing Instructions for the National Debt Office.*

41. The Debt Office is to consult the National Institute of Economic Research and the National Financial Management Authority on matters concerning Debt Office's forecasts of the central government borrowing requirement. *Ordinance containing Instructions for the National Debt Office*.

42. 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 Budget Act.

1.13 Evaluation

43. Evaluation of debt management 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.

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

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

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

47. Strategic and operational interest rate and foreign currency positions within the given risk mandate are to be recorded as income on an ongoing basis, and evaluated in terms of market values.

2 Basis for the Government's 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 cost of the debt while taking account of the risk in its management. The debt is to be managed within the framework of monetary policy requirements.

A further consideration is the size of the debt and its expected development. From the start of 2012 to the end of 2016 the unconsolidated central government debt is expected to decrease from SEK 1158 billion to SEK 928 billion (21 per cent of GDP). The yield curve is currently flat and interest rates are at historically low levels.

The steering of the management of the central government debt is based on the objective of central government debt policy. The size of the debt and its expected development over the next few years are taken into account in formulating the guidelines. In certain cases the situation on loan markets and the Swedish krona exchange rate may be of importance in formulating the guidelines. The objective of debt policy is set out in Chapter 5 of the Budget Act (2011:203), as are the purpose of the borrowing and the process, see sections 1.1–1.3.

The Government is responsible for setting the level of risk in the management of the debt. In general, strong central government finances and a low central government debt increase the scope for taking on risk in exchange for lower expected costs. The primary factor in the trade-off between cost and risk is the choice of maturity. It is assumed that the slope of the yield curve is positive over time. This means that the average cost is expected to be lower for a shorter maturity while the risk in management rises (and the other way round). The absolute interest rate level may be taken into account in certain cases.

In order to reduce the cost of the central government debt the Debt Office is able to take decisions on deviations from the benchmarks within the mandates it has been given. Derivatives are used for these deviations, which are defined as positions. These positions are evaluated separately and must not be taken in the Swedish fixed income market.

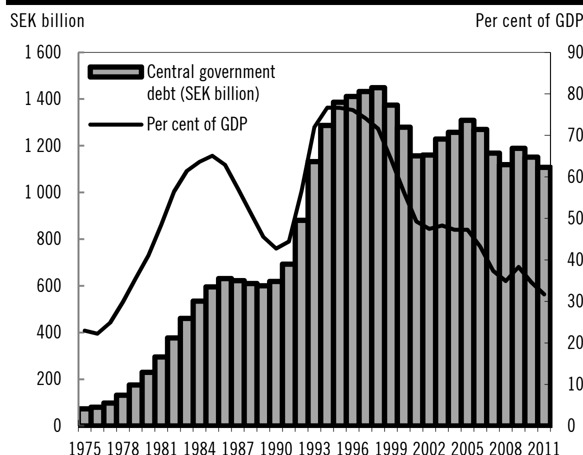
2.1 Central government debt

Historical development of the debt

The central government debt is the result of a central government budget that has historically shown larger deficits than surpluses. As a simplification, the debt increases when the budget shows a deficit and decreases when the budget shows a surplus. Central government debt has increased sharply as a percentage of GDP in two periods. The first period was from the mid-1970s to the mid-1980s and was a result of a downturn in the international economy and sharp increases in oil prices. Then the debt as a percentage of GDP rose from 22 to 65 per cent. The second period of a sharp rise in the debt occurred in the first half of the 1990s. That time the debt increase was caused by the domestic financial and property crisis. As a percentage of GDP the debt rose from 43 to 77 per cent in this period (figure 1).

In krona terms the unconsolidated central government debt was largest in 1998. Then the debt was SEK 1449 billion. At the end of 2011 the unconsolidated debt had fallen to SEK 1108 billion, which corresponds to SEK 1158 billion according to the new accounting principles for the central government debt being applied as of 2012 (see below).

FIGURE 1. Unconsolidated central government debt, 1975–2011



Source: National Debt Office

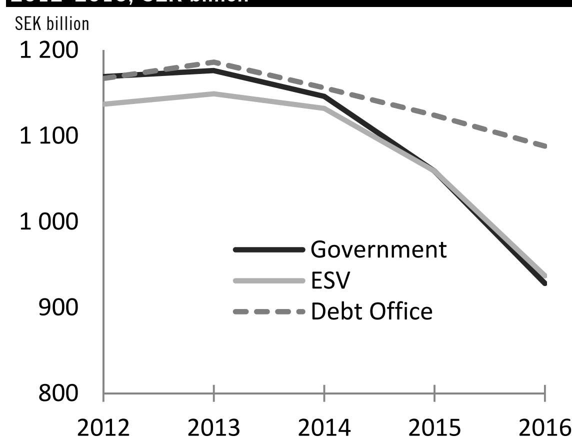
As a proportion of GDP central government debt has decreased every year sínce 1996, with the exception of 2009.[1] At the end of 2011 the unconsolidated debt corresponded to 31.7 per cent of GDP.

Development of the debt until 2016

Several official bodies make forecasts of public finances. The Government, the National Financial Management Authority (ESV) and the Debt Office are three of them. The aims, time horizons and methods differ from one forecast to another. The Government's forecasts are part of the political process and serve as the basis for Riksdag decisions on taxes and expenditure. The forecasts of the National Financial Management Authority are intended to provide information to support discussions and decisions on fiscal policy. The National Financial Management Authority's forecasts are based on decisions taken and legislative proposals as well as, in some cases, measures announced by the Government and the Riksdag. The Debt Office's forecasts form the basis for its borrowing plans. These forecasts clarify how the central government borrowing requirement and borrowing plans fit together, helping to increase transparency for investors. The forecasts made by the Government and National Financial Management Authority cover the current year and the next four years. The Debt Office forecasts relate to the next two years.

The Budget Bill for 2013 estimates that the unconsolidated central government debt will be SEK 928 billion (21 per cent of GDP) at the end of 2016. The Swedish Financial Management Authority forecast indicates that the unconsolidated debt will be SEK 937 billion at that time, while the Debt Office's calculations indicate that the debt will be SEK 1108 at the end of 2016. The Debt Office's forecast for 2012 and 2013 comes from the government borrowing report published in June 2012. For 2014, 2015 and 2016 the Debt Office's forecast builds on a simplified technical calculation that assumes that the surplus target for the public sector will be met each year. These calculations assume that surpluses above the target level are used to increase expenditure or decrease revenue. As a result, the technical forecasts made by the Debt Office deviate markedly from the forecasts made by the Government and the Financial Management Authority.

Figure 2. Unconsolidated central government debt 2012–2016, SEK billion



Source: National Debt Office

Risks of poorer development of central government finances

There is great uncertainty about economic developments. On the whole, the risk of weaker economic development is expected to be more likely than the main scenario presented in the Budget Bill for 2013 (Govt Bill 2012/13:1). Weaker economic developments will lead to poorer central government finances and a higher debt.

The uncertainty is mainly linked to the development of the central government debt

[1] The temporarily higher debt ratio in 2009 was largely due to the loans raised by the Debt Office on behalf of the Riksbank in order to strengthen the currency reserve.

crisis in the Euro area, its duration and its impact on the world economy. It is also difficult to assess to what extent changes in the world economy will affect the demand for Swedish goods and services. There is also considerable uncertainty about how the European banking system would withstand poorer economic development. Moreover, there is uncertainty about the development of the Swedish krona exchange rate. As concerns have grown about fiscal developments in many countries, the Swedish krona has become stronger, especially in relation to the euro. One important explanation of this strengthening of the krona is Sweden's relative strength with long-term sustainable central government finances and relatively high growth. If the krona gets much stronger than in the main scenario of the Budget Bill for 2013, this may result in poorer export growth and higher imports.

It is also possible that the recovery will come earlier and be stronger than expected. Such a scenario would bring stronger growth and lower unemployment. It is also possible that Sweden's strong public finances, households' good balance sheets and competitive companies mean that Sweden will be more resistant to the debt crisis than foreseen in the Budget Bill's main scenario.

Maastricht debt

Comparisons of the public indebtedness of EU countries use general government consolidated gross debt (the Maastricht debt). For Swedish conditions, this definition means that the central government debt and the local authority sector's capital market debts are added together and the AP Fund holdings of Swedish government bonds are deducted.

For Sweden the Maastricht debt was 38.4 per cent of GDP at the end of 2011. The corresponding figure for the EU as a whole was 82.5 per cent, with 87.2 per cent for the Euro area.

Different measures of central government debt

Central government debt is measured in different ways, depending on the purpose of the measure. This section reports the official measure, unconsolidated central government debt. This is the debt managed by the Debt Office. In the Budget Bill, the Government mainly uses the measure consolidated central government debt, which shows central government debt to outside parties. The difference between unconsolidated and consolidated central government debt is government agency holdings of government securities. At the end of 2011 these holdings amounted to SEK 32 billion. These two measures show the future central government commitments in terms of aggregate nominal amounts for the Debt Office's outstanding loan instruments – with and without government agency holdings respectively.

The measure used since 2007 for the steering of the debt is the consolidated cash flow (the CCF measure). This measure gauges the risk in the 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. Another important difference compared with the measures unconsolidated and consolidated central government debt is that the CCF measure includes the cash flows from assets in the Debt Office's debt management. In some periods assets of this type have increased as a result of, for example, extra borrowing in treasury bills (autumn 2008) and on-lending to the Riksbank (from spring 2009). The steering shares for the composition of the debt and the maturity benchmarks for the different types of debt are based on the CCF measure.

Change of accounting principles for the debt

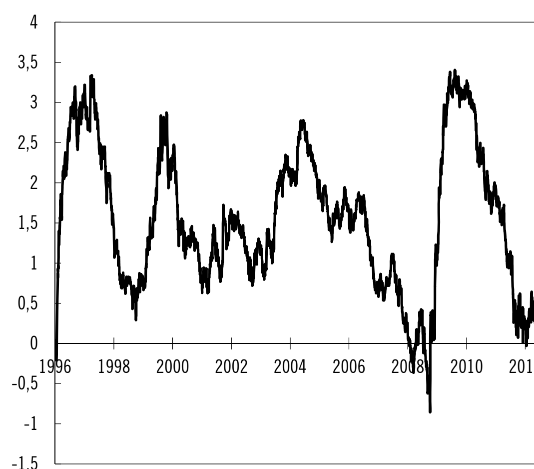
In January 2012 the Debt Office made changes to the reporting of the central government debt. The purpose of the changes was to arrive at clearer and more consistent reporting. The changes mean that the debt reported is slightly higher since outstanding collateral and 'reverse repos' in Swedish government securities are included. This change in reporting does not affect actual indebtedness or the expenditure and cost interest payments on the central government debt. The central government budget balance, the Maastricht debt and general government net lending are not affected either.

The change means that the reported central government debt was almost SEK 50 billion higher at the start of 2012 compared with previously. Measured as a proportion of GDP this corresponds to 1.5 per cent. The official level of the central government debt in 2011 and before will not be changed as a result of this change of the accounting principles.

Conclusions
While these forecasts point to a fall in the central government debt, there are also risks that economic developments and therefore central government finances may get weaker. The uncertainty is mainly linked to the development of the central government debt crisis in the Euro area, its duration and its impact on the world economy, and thereby on the demand for Swedish goods and services.

In all, this means that the greater scope for risk-taking in the management of the central government debt, as a result of the decreasing importance of this debt for central government finances, should not be used.

Figure 3. Difference between ten-year and three-month Swedish government borrowing rate as of 1996



Source: Reuters EcoWin

2.2 Loan markets

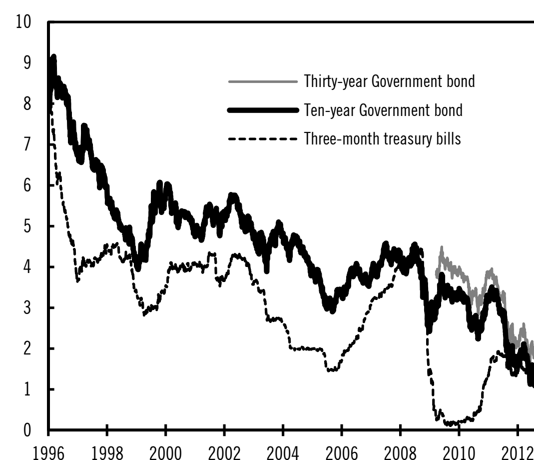
The yield curve slope
The yield curve slope describes the interest for different maturities. The interest on longer maturities is, as a rule, higher than the interest on shorter maturities, since investors require a premium for locking in money for a longer time. The slope of the yield curve affects the trade-off between cost and risk. When the yield curve has a steep positive slope, the cost saving from borrowing at shorter maturities increases. However, borrowing at shorter maturities means that an interest rate rise has a quicker impact since the debt is refinanced more often. Borrowing at short maturities therefore leads to a rise in the expected variation in interest costs.

The yield curve slope can be described as the difference between the level of the ten-year government bonds and the three-month treasury bills. At present the ten-year government bond interest rate is about 0.5 percentage points higher than the interest rate on three-month treasury bills (1.5–1.0). This difference is currently smaller than normal, from a historical perspective (figure 3). The main explanation is that long-term interest rates are at historically low levels (figure 4).

The yield curve level
The yield curve level is of less importance for the long-term choice of maturity. Considering that rises and falls in the interest rate offset each other in the long run, the gain from having a long-term debt when interest rates rise is reduced by the loss that can be said to arise when interest rates fall again. However, in some extraordinary cases, the interest rate level may affect the steering of maturities. This happened, for example, in spring 2009 when, with the aim of locking in low interest rates, the Government made it possible for the Debt Office to issue nominal a 30-year bond.

Figure 4 shows the historical levels for the thirty-year government bond (issued in spring 2009), ten-year government bonds and three-month treasury bills.

Figure 4. Swedish goovernment borrowing rate as of 1996

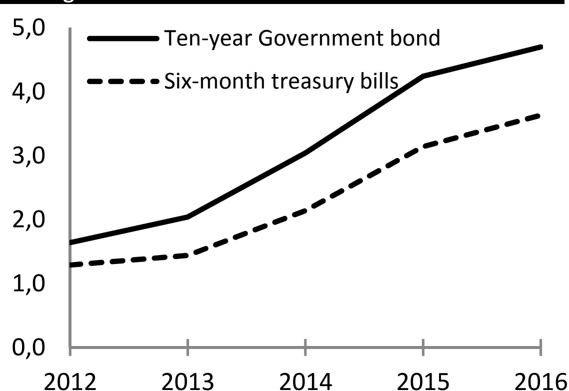


Source: Reuters EcoWin

Government forecast of interest rate developments
In the Budget Bill for 2013 the Government assumes that the Riksbank will pursue an expansive monetary policy over the next few years. The low resource utilisation in 2012 and 2013 and low inflationary pressure point in this direction. As resource utilisation and inflation rise, the Government expects a normalisation of the repo interest rate to commence. The Riksbank has six scheduled monetary policy decisions per year. At the latest meeting on 24 October 2012 it was decided that the repo rate would be 1.25 per cent until further notice. In the Budget Bill for 2013 the Government expects the repo rate to be raised to 3.5 per cent by the end of 2015, and to then remain unchanged in 2016.

As the European debt crisis has deepened, Sweden's strong central government finances have increasingly made Swedish government securities stand out as a secure investment. As a result, the interest rate on Swedish government securities has fallen to record lows. Long-term interest rates are also expected to remain low over the next few years. The development of Swedish long-term interest rates can be assumed to follow the development of corresponding rates in other countries with sound central government finances. However, given the low starting position, long-term interest rates are expected to be more than twice as high at the end of the calculation period as they are today.

Figure 5. Government forecast of the Swedish government borrowing rate at the end of 2012–2016



Source: Budget Bill for 2013 (Govt Bill 2012/13:1)

Conclusions
In general, shorter interest rate refixing periods lead to lower expected costs since the yield curve can be assumed to have a positive slope over time. However, shorter interest rate refixing periods mean that the interest rate refixing risk increases.

During the autumn the slope of the yield curve has been weakly positive. The Government expects the yield curve to get slightly steeper in the next few years. Currently interest rates are at historically low levels in Sweden and other countries with sound public finances. As resource utilisation and inflation rise, the Government expects both short-term and long-term interest rates to rise. Decisions on how assessments of the development of interest rates are to influence the ongoing management of the central government debt have been delegated to the Debt Office within the framework of the position-taking mandate assigned to it (see points 30, 31 and 33 of the guidelines and section 3.5)

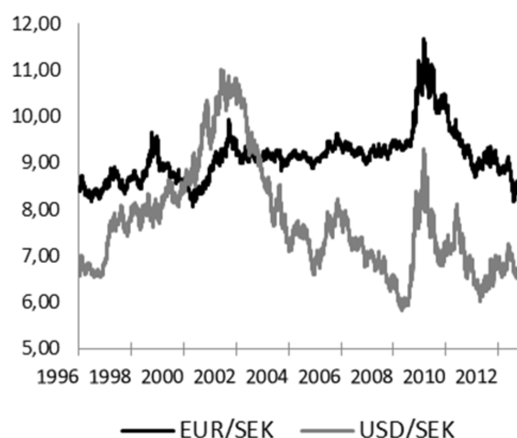
2.3 The Swedish krona

The size of the foreign currency debt expressed in kronor is affected by the value of the Swedish krona in relation to other currencies. During the crisis in the early 1990s a large part of the government borrowing requirement was financed in foreign currencies, so that the foreign currency debt rose sharply. In summer 2008 the target share of 15 per cent was achieved after annual amortisation payments on the foreign currency debt.

The historical development of the Swedish krona
During the financial crisis in 2008 and 2009 the krona weakened sharply when investors moved into the major currencies. In summer 2009 the krona strengthened as financial markets stabilised and when the signals about economic developments became more positive. In 2010 the krona was traded at largely the same levels as before the financial crisis. At the start of the debt crisis in 2011 the krona only weakened marginally, and since then the krona has continued to gain strength, One reason for this is that Sweden has strong public finances, relatively better macroeconomic prospects, a less

expansive monetary policy and high creditworthiness. This has made many investors view Swedish government securities as a safe haven. Figure 6 shows the development of the krona in relation to the euro and the dollar.

Figure 6. The development of the krona as of 1996

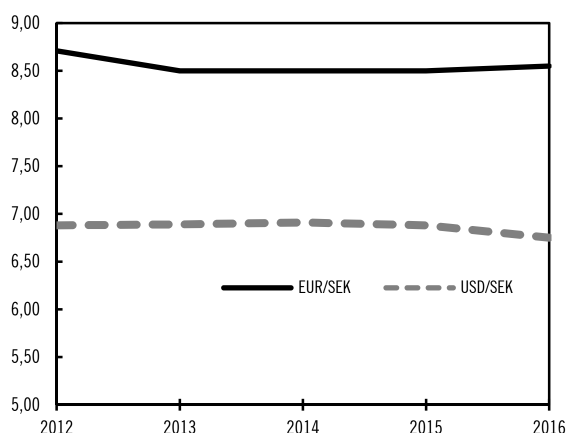


Source: Reuters EcoWin

Government forecast of the development of the krona

There is great uncertainty about the future development of the krona and its long-term value. Sweden's good macroeconomic prospects indicate that the krona should stay at its present levels. Figure 7 presents the development of the krona in relation to the euro and the dollar according to the Government's forecast in the Budget Bill for 2013.

Figure 7. Government forecast for the krona at year-end 2012–2016



Source: Govt Bill 2012/13:1

Conclusion

The guidelines for the foreign currency debt share of the central government debt are not formulated in the light of the expected development of the Swedish krona. The Government's view of the foreign currency debt share of the debt is described in more detail in section 3.2.

On one occasion the krona exchange rate was of importance for the size of the position-taking mandate in the krona exchange rate. In May 2009 that mandate was raised from SEK 15 to 50 billion, as the krona was judged to be severely undervalued in connection with the financial crisis. The guidelines for 2012 returned this mandate to its previous level of SEK 15 billion. For 2013 the mandate in the krona exchange rate is being reduced to SEK 7.5 billion. The Government's view of the position-taking mandate is set out in more detail in section 3.5.

Decisions on how assessments of the krona's development are to affect the ongoing management of the central government debt have been delegated to the Debt Office within the framework of the position-taking mandates assigned to it (point 32 of the guidelines).

2.4 The Riksbank's comments on the Debt Office proposal

Under Chapter 5, Section 6 of the Budget Act the Government shall request an opinion from the Riksbank on the proposal of the National Debt Office for guidelines for the management of the central government debt.

The Riksbank considers that the proposals made by the Debt Office in its guidelines for the administration of the central government debt in 2013–2016 are compatible with the requirements set by monetary policy. The Riksbank has, from a monetary policy perspective, no objections to the Debt Office's proposed guidelines.

3 Reasons for the Government's decision

3.1 Debt cost and risk

The objective for the management of the central government debt states that the guidelines are to be based on a trade-off between long-term cost and risk.

Costs of the debt

The costs of the central government debt are primarily affected by the size of the debt and the interest rate levels when the interest rates on the debt instruments are fixed. Currency movements also affect the cost of the debt as some of the debt is exposed to foreign currency. Similarly the inflation-linked debt is affected by the development of the CPI. The cost of the central government debt is measured as the average cut-off yield. This measure reflects the average interest rate for the Debt Office's borrowing of the outstanding debt.

In recent years borrowing costs have fallen to record lows as a result of the sharply falling market interest rates and Sweden's strong central government finances. In 2009 the interest payments in cost terms for the debt were halved compared to the previous year. In 2009 the interest costs for the debt were SEK 22 billion. For 2010 and 2011 the interest costs were SEK 22 billion and SEK 26 billion respectively. The Budget Bill for 2013 estimates that the interest costs will be between SEK 24 and 28 billion in 2012–2016.

Risks in debt management

The risk in the central government debt is defined at a general level as its contribution to variations in the budget balance and the debt. There is no single measure that describes the aggregate risk in the management of the debt. Instead measures of different types of risk are used, the most important being the interest rate refixing risk, the refinancing risk and the financing risk.

The steering of maturities in the guidelines is aimed at the interest rate refixing risk. The interest rate refixing risk means the risk that the interest rate on the debt will rise rapidly on account of higher market interest rates. If the debt has a high share of short-term and variable interest loans, a change in the market interest rate will impact more rapidly on the cost of the debt and the other way round. Short-term interest rates are generally lower than long-term interest rates, which means that a trade-off must be made between cost and risk.

The refinancing risk refers to the risk that it will turn out to be difficult and/or expensive to replace maturing loans with new ones. In general, the refinancing risk appears at the same time as the need for new borrowing rises sharply. The best insurance against refinancing risks is therefore good and sustainable central government finances.

It is important to distinguish between the refinancing risk and the interest rate refixing risk. The refinancing risk reflects the remaining time to maturity (when the debt needs to be refinanced), while the interest rate refixing risk reflects the exposure in the debt.

The refinancing risks in the management of the debt are taken into account in several different ways in the Debt Office's strategies for borrowing and market maintenance. However, previously the guidelines have not stated explicitly that the Debt Office is to take account of refinancing risks. For the sake of clarity a new point to this effect has been added to the guidelines. Section 3.4 describes the methods that the Debt Office uses to manage the refinancing risk in its management of the debt.

The financing risk means the risk that it will be difficult and/or expensive to borrow funds to cover the deficit in the central government budget (the net borrowing requirement). In

principle, this risk exists irrespective of the size of the debt, but it is unavoidable that a large initial debt dominated by short loans can worsen the problems if a country unexpectedly runs large deficits. Thus financing and refinancing risks can work in the same direction. Financing risks can also arise in periods when the central government budget shows a surplus for the year as a whole. The liquid funds held by central government vary greatly within and between months. On individual days, the deficit or surplus may be close to SEK 100 billion. The net borrowing requirement is distributed very unevenly over the year. A large part of the net borrowing requirement arises in December each year. For 2012 the Debt Office expects the net borrowing requirement in December to be SEK 99 billion, which is a larger amount than the total volume of bonds maturing during the year. The Government intends to give an inquiry that will look into various questions concerning central government debt policy the task of analysing whether central government disbursements can be redistributed so as to spread the net borrowing requirement more evenly over the year.

Borrowing method limits the refinancing risk while interest costs decrease

Nominal government bonds in kronor are the core of borrowing and account for the bulk of long-term borrowing. A large part of these government bonds are converted into short maturities using swaps. This makes it possible to limit the refinancing risk while benefiting from the cost advantages of shorter interest rate refixing periods. The average remaining time to maturity for the whole of the central government debt is about 6 years while the average interest rate fixing period for the whole of the central government debt is about 4 years.

Trade-off between cost and risk

A smaller central government debt results in lower costs and therefore smaller variations in costs (expressed in kronor). In principle a low central government debt means that the scope for risk-taking increases in return for lower expected costs. Sweden's central government finances are judged as strong from both a historical and an international perspective (see section 2.1).

In view of the great uncertainty prevailing on account of problems in the central government finances of certain European countries and the experience other countries have had when refinancing maturing central government debt, in combination with sharp increases in deficits, the Government chose in the guidelines for 2012 to frame its control so that dates when the debt reaches maturity are spread over a longer period of time. This direction is retained by increasing from SEK 60 to 70 billion the benchmark for instruments in nominal krona debt with more than 12 years to maturity (section 3.3).

There is still great uncertainty about the European debt crisis, so that the Government sees no reason to increase the risk-taking in the management of the central government debt.

3.2 Composition of the debt

At present the Government sees no reason to alter the shares of the various types of debt. The share of foreign currency debt is to be 15 per cent and the share of inflation-adjusted krona debt 25 per cent. The remaining share (60 per cent) is to consist of nominal debt.

As instructed by the Government, the Debt Office has analysed what shares different types of debt should have in the case of much higher and much lower central government debt and how maturities should be managed in these cases. A qualitative analysis of the issue was presented in the Debt Office's proposed guidelines for 2012. The Debt Office’s proposed guidelines for 2013 present a renewed analysis of the share of foreign currency debt in particular.

Share of foreign currency debt

Large budget deficits and the financing of the defence of the krona led to a sharp rise in the foreign currency debt during the crisis in the early 1990s. When the guidelines for the management of the central government debt were adopted for the first time in 1999, foreign currency debt was about 30 per cent of the debt. This share was judged to be too large, so the Government decided in several years that the Debt Office was to amortise this debt. In its guidelines decision for 2005 the Government laid down that the target share for foreign

currency debt was to be 15 per cent. This share is based on an analysis carried out by the Debt Office in 2004. The target share for foreign currency debt (15 per cent) was achieved in summer 2008, after annual amortisation payments on this debt.

The arguments related to the foreign currency debt that have largely applied until the present are summarised in the following five points:

- There are no theoretical reasons to believe that there is any systematic cost advantage in having a foreign currency debt as opposed to a krona debt (in a comparison of matching maturities).
- The cost variation for foreign currency borrowing is higher than for borrowing in Swedish kronor on account of the exchange rate variation.
- Some foreign currency exposure can reduce the risk in the debt through diversification in the sense that the dependence on the interest rate in individual countries, including Sweden, decreases.
- Foreign currency debt is a flexible instrument in the sense that the state can borrow large sums in a short period of time. However, this is only true if the foreign currency debt is not too large to begin with.
- There may be reason to always have some borrowing in foreign currencies in order to secure access to the international capital market.

In its latest analysis, which is based on historical data, the Debt Office concludes that it would not have been possible to further reduce the cost variation for the debt by having a certain share of foreign currency borrowing. The reason is that the cost variation in a portfolio consisting of only krona debt has been very low. However, the possibility of borrowing in foreign currencies has been important as a means of reducing the financing risk. Borrowing in foreign currencies provides a possibility of borrowing large sums in a short period of time.

Before the present guideline for foreign currency debt of 15 per cent is reconsidered a closer analysis should be made of both the cost and the financing risk aspects. The Debt Office is to present such an analysis in its proposed guidelines for 2014. Another reason for waiting at present before making a change in the guidelines for foreign currency debt is the ongoing Inquiry on the Riksbank's financial independence and balance sheet – review after the lessons of the financial crisis (Terms of reference Finance 2011:12). The results of this Inquiry may affect the currency exposure of the Debt Office and the agency's role in financing the foreign currency reserve. The Inquiry is to report back no later than 15 January 2013.

Share of inflation-linked krona debt

Borrowing using inflation-linked bonds was introduced in 1994. The share of inflation-linked debt increased gradually and the guidelines decision for 2005 laid down that the target share was to be 20–25 per cent. In connection with the introduction of a new share measure in 2007 the target share was adjusted to 25 per cent for technical reasons associated with the calculations. The share of inflation-linked krona debt has been unchanged since 2007.

The purpose of borrowing using inflation-linked bonds is to contribute to lower risk in the debt through greater diversification. Inflation-linked borrowing can also relieve the market for government bonds and treasury bills if the debt is large by spreading the supply to a further type of debt. This reduces the risk that the interest rate in a single type of debt will be driven up. However, one precondition is that liquidity in the market for inflation-linked bonds is sufficiently good. Otherwise there is a risk that the state will have to pay a liquidity premium that is larger than the potential cost saving.

The Debt Office's scenario analysis shows that borrowing in nominal government bonds would be given priority ahead of borrowing in inflation-linked bonds if the central government debt was so small that liquidity in the market for government securities would suffer. This scenario describes how the stock of inflation-linked krona bonds would fall as the loans matured. In a scenario in which the debt rises sharply the present share of inflation-linked debt would probably decrease since it may be difficult to sharply expand borrowing using inflation-linked bonds. The investors making placements in inflation-linked bonds are judged to have a limited will and capacity to rapidly increase their holding.

The Government agrees with this assessment. However, given the present prospects for central government finances, the Government does not

see any reason to alter the benchmark for the share of inflation-linked krona debt.

3.3 Debt maturity

The maturity of central government debt is mainly steered in terms of interest rate refixing periods. The outstanding volume of instruments in nominal krona debt with a maturity of more than twelve years is steered by a benchmark.

The Government sees no reason to alter the steering of the interest rate refixing period in the central government debt. The interest rate refixing period is to be 0.125 years for foreign currency debt and 7–10 years for inflation-linked krona debt. The interest rate refixing period of the nominal krona debt for instruments with maturities of up to twelve years is to be 2.7–3.2 years.

For instruments in nominal krona debt with maturities of more than twelve years, the long-term benchmark for the outstanding volume is increased from SEK 60 to 70 billion. At present the corresponding volume is SEK 53 billion. This change is intended to increase the volume of debt in long maturity segments thereby going some way towards reducing the refinancing risk in the central government debt.

This is to be regarded as a long-term benchmark, and the rate of increase in relation to the benchmark has to be weighed against the cost and risk of borrowing at other maturities and the development of demand for long bonds. The Debt Office is also to take fiscal developments into account so that a rise in the borrowing requirement may lead to the long-term benchmark being reached earlier than otherwise. The benchmark and the Debt Office's management of very long borrowing will be evaluated in the regular evaluation process.

Steering of maturity to refer to a longer period

An alteration is made to point 19 of the guidelines so as to make it clear that the steering of maturity is to refer to a longer period. Large fluctuations in the day-to-day borrowing requirement mean that the maturity may vary in the short term. When large borrowing requirements arise the maturity is shortened since a large part of the borrowing takes place at short maturity. In a surplus the maturity tends to be extended. There is no justification for parrying these temporary changes by, for example, using derivative transactions. The maturity target is intended to steer the maturity adjusted for temporary variations that are handled in liquidity management.

Clarifications concerning the maturity

For the sake of clarification the Government is altering the wording of points 15 and 16 of the guidelines. The present wording under point 15 "The maturity of the nominal krona debt for maturities of up to and including twelve years is to be between 2.7 and 3.2 years" is replaced with the wording "The maturity of the nominal krona debt for instruments with maturities of up to twelve years is to be between 2.7 and 3.2 years". In addition, the previous wording of point 16 of the guidelines "For maturities over twelve years in nominal krona bonds the benchmark for the outstanding volume is to be SEK 60 billion" is replaced with the wording "For nominal krona instruments with maturities over twelve years, the benchmark for the outstanding volume is to be SEK 70 billion".

As already stated previously in point 25 of the guidelines, the maturity is to be measured by the average interest rate refixing period that includes all the cash flows including expected compensation for inflation. Cash flows are not to be discounted.

3.4 Steering of refinancing risks

The guidelines are supplemented with respect to refinancing risks

In its decision on the guidelines for 2012 the Government instructed the Debt Office to review how the guidelines can take more account of the refinancing risks in its management of the central government debt. The conclusion is that it would not be appropriate to limit the refinancing risks by having quantitative metrics in the guidelines. One reason is that such a metric would force the Debt Office to borrow at long maturities in situations when there is a temporary, sharp increase in the borrowing requirement. Then, when the borrowing requirement decreases, the Debt Office would have to repurchase the long loans in order to

achieve the prescribed maturity profile. In the period 1999–2003 a restriction to the effect that a maximum of 25 per cent of the central government debt could mature within the next twelve months was applied to the maturity profile. This guideline was removed in 2004 as it was concluded that a specific restriction on the short maturities was not an appropriate way of limiting the refinancing risk.

However, for the sake of clarity it should be stated that the Debt Office is to take account of refinancing risks in its management of the central government debt (point 23 of the guidelines). In the evaluation of its management of the central government debt the Debt Office is to report in what way it has lived up to the requirement to take account of refinancing risks.

The refinancing risk is taken into account in several ways

The refinancing risk in the management of the central government debt is already taken into account in several different ways. The borrowing is largely conducted in government bonds that are spread over several loans with different maturity dates. This means that only a small part of the outstanding debt stock matures and must be refinanced each year. The refinancing risk is also limited by continuously spreading borrowing across small, regularly held auctions. This means that maturing bonds are financed in advance to a great extent. This procedure is less common in other European countries. In recent years the stock of government securities maturing within two years has been halved from SEK 200 till 100 billion. At the same time long-term borrowing has increased, which has also helped to decrease the refinancing risk. The Government retains this direction. The benchmark for the outstanding volume of instruments in nominal krona debt with maturities of more than twelve years is raised from SEK 60 to 70 billion.

It is crucial to have an effective government securities market so as to have readiness to handle any large borrowing requirements in the future. A continuous presence and therefore a certain volume of maturing loans is required so as to maintain an effective government securities market. If the volume of maturing loans is minimized, by for example replacing the shortest bonds with longer loans, this would lead to the central government ceasing to issue bonds in periods of surplus. In a situation where the borrowing requirement rises sharply, this would make it more difficult to quickly finance large volumes. Therefore a trade-off must be made between minimising the refinancing risks and having a readiness to be able to quickly increase borrowing, i.e. so as to be able to limit the financing risks. A corresponding trade-off must also be made with regard to the distribution over the number of maturities. If the central government debt is spread over too many maturities, the individual loans will be small and illiquid. An illiquid bond market results in both higher costs and a greater financing risk. This means that when the borrowing requirement decreases, there is reason to reduce the number of outstanding government bonds. By giving priority to issues of ten-year government bonds the Debt Office reaches a broad investor base, which also reduces the refinancing risk. Through its foreign currency borrowing the Debt Office has an established channel to international capital markets. This loan channel provides maximum potential to borrow large volumes in short period of time.

3.5 Position-taking

The Government supplements the guidelines for the management of the central government debt with the following wording: "Positions may only be taken on markets that permit the management of market risk through liquid and otherwise well-developed derivative instruments and that are potentially a borrowing currency in the context of debt management" (point 30 of the guidelines).

In the Government Communication *The evaluation of central government borrowing and debt management 2007–2011 (Gov. Comm. 2011/12:104)* the Government stated that it intends to consider once again the size and formulation of the position-taking mandate.

In connection with the evaluation communication the Government instructed the Debt Office to: *first*, investigate how the mandate for position-taking can be limited in such a way that the possibility of taking positions not directly linked to the foreign currency debt is closed off and, *second*, report how the position-taking mandate can be justified

and analysed as an integral part of the management of central government debt.

Decisions on principles are moved from the Debt Office to the Government

In the first part of this commission, i.e. how the mandate for position-taking can be limited so that the possibility of taking positions not directly linked to the foreign currency debt is closed off, the Debt Office proposes an addition to point 30 of the guidelines. Until now the Board of the Debt Office has laid down principles for both which markets and which instruments are available in the Office's active management. Currently these decisions are laid down in the Debt Office's annual finance and risk policy. The supplement to the guidelines means that the Government, and not the Board of the Debt Office, will adopt the principles for what markets and instruments are available in the Debt Office's active management. This means, first, that positions may only be taken on markets that are potentially a borrowing currency as part of debt management. Second, it must be possible to manage the risk in these markets using liquid and otherwise well-developed derivative instruments. However, within the framework of the principles decided by the Government the Debt Office will still be able to lay down which markets meet the requirements at any given time. Since circumstances can vary over time, the Government finds that this decision-making procedure is appropriate.

Position-taking operations as an integral part of the management of central government debt

In the second part of the commission, i.e. how the position-taking mandate can be justified and analysed as an integral part of the management of central government debt, the Debt Office sets out in its proposed guidelines for 2013 how the agency's active approach to the management of the debt works and how position-taking fits in as part of this approach. The Debt Office describes how the Government's guidelines for the composition and maturity of central government debt can be achieved in several different ways. The Debt Office has the remit of applying the guidelines in its operational activities on the basis of the objective of cost-minimisation taking risk into account. A whole series of choices need to be made in order to operationalise the guidelines on the basis of this objective. The Debt Office's remit to manage the central government debt thus includes active choices concerning both loan techniques and borrowing instruments. Given the objective and the Government's guidelines, these choices are also made on the basis of judgements of the risks that arise as a result of market developments, changes in borrowing requirements, the state of the economy, changes in market structure, investor behaviour and new financial risks. Central government debt is mainly retained until maturity so that it is not relevant to evaluate these choices in terms of market valuation. In most cases it is not possible, either, to evaluate individual choices since there are no clear yardsticks to use in comparisons. A large part of the evaluation is therefore carried out in qualitative terms.

This active approach with regard to strategic and operational interest rate and currency positions means that the Debt Office continuously evaluates costs and risks. Sometimes market situations can arise in which the normal assumptions that all types of debt have the same expected cost are not applicable. In such situations the absolute costs can be higher than necessary. Through risk mandates assigned to it (points 31 and 32 of the guidelines) the Debt Office is able to make use of market situations to reduce the cost of the central government debt while taking account of risk.

Since the positions are reported separately, these operations can be seen as loosely attached. However, the Debt Office considers that this is not the case. The position-taking operations should instead be viewed as an effective means of articulating judgments about the conditions for the management of the central government debt in concrete, active decisions. The work on position-taking has evolved from a need to consider new information about costs and risks. The Debt Office takes the view that this makes the position-taking operations an integral part of effective management of the central government debt.

Mandate for positions in the Swedish krona exchange rate

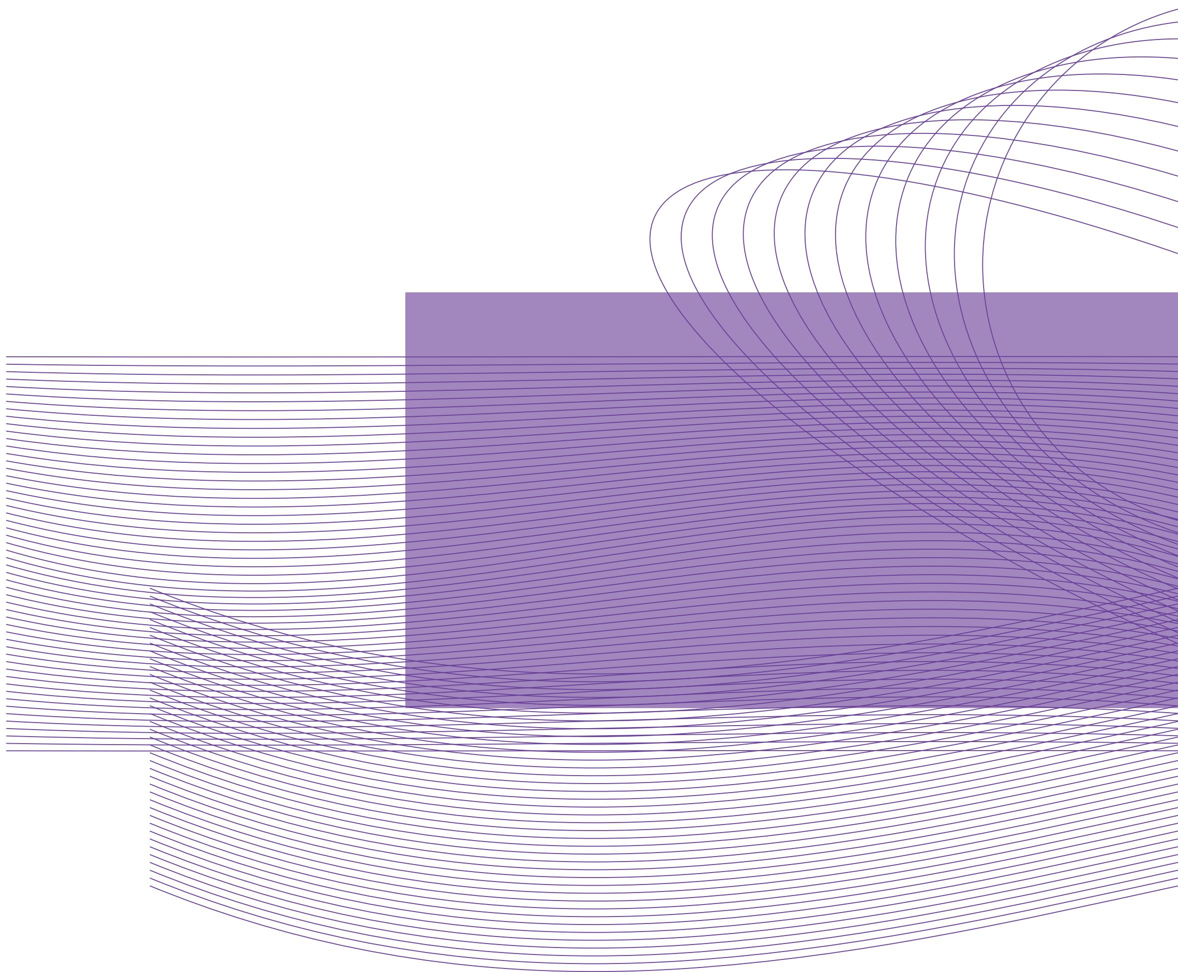
The Government decides to reduce the mandate for strategic positions in the Swedish krona exchange rate from SEK 15 to 7.5 billion (point 32).

In the Government Communication *The evaluation of central government borrowing and debt management 2007–2011 (Govt Comm. 2011/12:104)* the Government stated that it intends to consider once again the size and formulation of the position-taking mandate ahead of a coming decision on guidelines. This evaluation analysed the basis for the Debt Office's position-taking. The analysis shows that the position-taking operations have contributed to major cost savings in the management of the central government debt. At the same time, the analysis notes that 94 per cent of the total gain of SEK 18.4 billion since 2000 comes from five strategic positions taken by the Debt Office. The analysis points to two main arguments that justify active management by means of position-taking. One is the possibility of keeping debt management costs down by parrying large exchange rate movements. The other is contributing to a greater market focus, which develops and broadens the professional skills of Debt Office staff in financial matters. The latter argument can also be linked to the objective of cost minimisation.

However, the risks in the position-taking operations must be set against the above arguments. The mandate for strategic positions in the krona currency rate is reduced from SEK 15 to 7.5 billion (point 32 of the guidelines). The halving of the mandate means that the risk of losses in these position-taking operations is limited.

3.6 Borrowing to meet the need for central government loans

The Government clarifies point 35 of the guidelines about loans to satisfy the need for central government loans so that it states that this refers to the need under Chapter 5, Section 1 of the Budget Act.



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